

**FACTORS AFFECTING THE TAX COMPLIANCE OF SMALL-SCALE
TRADERS IN VOI SUB-COUNTY, KENYA**

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DECLARATION

This research project is my original work and has not been presented for any award in any other academic or non-academic-institution.

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HDB336-C016-2370/2016

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

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DEDICATION

I dedicate this project to my loving parents Mr. and Mrs. Kiletta, My wonderful family and friends.

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My great appreciation and thanks goes to the Almighty God for His provisions and good health. Secondly my employer for the giving me the opportunity to pursue my education while working, my loving parents for their support, the entire fraternity of Kenya School of Revenue Administration for their tireless facilitation, my supervisor Mr. Gilbert Biwott who has been exemplary and always found time to guide and encourage me despite his busy schedule, my colleagues and family for their great input and understanding. To all other individuals and organizations, I have not mentioned please accept my sincere gratitude for your support. I would not have made it without your financial and moral support, understanding and perseverance during my study period.

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LIST OF ABBREVIATIONS

GDP	Gross Domestic Product
GOK	Government of Kenya
ICPAK	Institute of Certified Public Accountants in Kenya
ICT	Information Communication Technology
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
OECD	Organization for Economic Cooperation and Development
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
TCC	Tax Compliance Certificate
TOT	Turnover Tax
VAT	Value Added Tax

DEFINITION OF TERMS

Cost of Compliance	is expenditure of time or money in conforming with government requirements such as legislation or regulation (Coolidge, 2010)
Tax Compliance	Tax compliance is defined as the adherence to the administrative rules of lodging and paying taxes on time. (Ahmed & Braithwaite, 2015).
Tax Knowledge	is the level of awareness or sensitivity of the taxpayers to tax legislation (Oladipupo & Obazee, 2016),.
Technology	This the application of scientific knowledge for practical purposes that provide easy access to information through telecommunications. (Diebold, 2010).
Small Scale Traders	Small scale businesses represent small institutions, individual owned organizations or suppliers operating in a formal or informal setup with little planning whose sales do not exceed a certain level in each taxation year (Endres, 2014).

ABSTRACT

Tax compliance is a major concern among many governments in the world, this issue has been long discussed. Kenya still faces the challenge of low tax compliance in the SME sector. Therefore, the primary goal of this research was to determine factors affecting the tax compliance status of small-scale traders in Voi sub-county, Kenya. This study sought to address the following research questions; evaluating the effect of tax knowledge on tax compliance among small scale traders in Voi, to determine the effect of cost of compliance on tax compliance among small scale traders in Voi and assessing the effect of technology on tax compliance among small scale traders in Voi. The theoretical framework was based on the theory of economic deterrence, prospect theory and the Fiscal Psychology model theory. The study adopted a cross-sectional research design where the target population comprised of 130 informal traders in Voi Sub-county. The study selected a sample of 98 respondents using the Godden formula. Primary data was used where structured questionnaires were employed; they were pilot tested before administration. Data analysis was done using SPSS version, where descriptive and inferential statistics was used. The analysis determined a Cronbach Alpha of 0.770 and KMO and Bartlet test showed a value of 0.797 which was significant. The regression analysis between compliance cost and tax compliance, the analysis showed ($\beta= 0.185$; $p= 0.030$). Secondly on the relationship between tax knowledge and tax compliance, it was determined that ($\beta=0.212$; $p=0.009$). Finally, on the relationship between technology and SMEs tax compliance, it was determined that ($\beta=0.204$; $p=0.004$). The study found out that compliance cost, tax knowledge and technology affect SMEs tax compliance. The study concluded that compliance cost, technology and tax knowledge significantly affect tax compliance and the improvement of each factor will lead to tax compliance among SMEs. The study finally recommended that the revenue body in conjunction with other law enforcement agencies should simplify online technology in order to reduce compliance cost. The study also recommends that tax payers learning ought to be emphasized since tax data and tax learning tends to advance tax compliance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Most developed countries are characterized by a broad base for direct and indirect taxes with tax liability covering the vast majority of citizens and firms. Developing countries, in contrast, are confronted with social, political and administrative difficulties in establishing a sound public finance system (Helhel & Ahmed, 2014). As a consequence, developing and emerging countries are particularly vulnerable to tax evasion and avoidance activities of individual taxpayers and corporations. This can be considered one of the primary reasons for large differences in the ability to mobilize own resources between developed and developing countries (Mukabi, 2014). While tax revenues in developing countries amount to almost 46 per cent of gross national income in 2017, the share in selected developing regions amounts around 28% in Africa in 2017 and 25% in Latin America. Nonetheless, tax revenue has increased over time in many low-income countries. However, this development is mostly due to increased revenues from natural resource taxes, e.g. income from production sharing, royalties and corporate income tax on oil and mining companies and cannot be interpreted as a sign of an improved tax system or administration. (Mwangi, 2014).

Tax Compliance poses a serious challenge to Governments in African countries (Tresch, 2014). According to the Small and Medium Scale Enterprises Development Agency of Nigeria, 80% of SMEs die before they are five years. One of the factors attributed to this high mortality rate is tax related matters. These tax-related matters include multiple taxation, high tax rates and penalties (Atawodi & Ojeka, 2012). Lack of knowledge of the transaction dynamics of SMEs, payment for accumulated taxes of up to 6 years, adverse publicity leading to loss of customers as a result of government tax officials sealing a company. Researches have revealed that more than 50% of potential tax revenue remains uncollected in most developing countries (Amanamah, 2016).

In 2011, tax non-compliance cost governments' worldwide about 5.1 % of their Gross domestic Product (GDP). Even in the most advanced economies in the world, tax evasion undermines revenue collection substantially (Rile, 2011). Among the three East African countries of Kenya, Uganda and Tanzania their informal economy constituted 33% of the GDP in the year 2011, while for Kenya it represented 7% of total government expenditure. The tax burden in Kenya would thus be high, standing at about 20.9%. If the Kenya government is to increase its social expenditure, then it needs to reduce tax evasion in the informal economy (Omeri *et al.*, 2010).

Some SMEs doing business in Kenya are not registered and neither are they recognized by the government. Failure to register may be linked to attempts to escape tax payments and harassments by the local and state governments in Kenya (Omeri *et al.*, 2010). The government of Kenya makes various regulations and policies that impact on multiple sectors of the economy, including SMEs, either positively or negatively (Mukabi, 2014). SMEs create jobs, aid in the management of rural-urban migration, help in international trade, provide services and support big business and also help in the diversification of the economy (Simiyu, 2013). In Kenya, tax laws change frequently. Many SME taxpayers do not have sufficient knowledge of the tax laws. Lack of this knowledge results in low levels of tax compliance. For instance, an SME can deal with 3 tiers of government in Kenya on the same tax issue (Mwangi, 2014).

Tax compliance is a complex defining term. Brown and Mazur (2013) view tax compliance as a multifaceted term that can be subdivided in three distinct ways: payment compliance, filing compliance and reporting compliance. Organization for Economic Cooperation and Development (2011) recommends categorizing tax compliance in groups in order to make its definition clear. These groups are administrative compliance and technical compliance. Administrative compliance refers to adhering to administrative rules of lodging and payment of taxes otherwise known as reporting compliance, procedural compliance or regulatory compliance (Smatrakalev, 2016).

Technical compliance relates to adhering to the technical requirements of the tax laws in calculating taxes or provisions of the tax laws in paying the share of the tax. Jones (2019) defines tax compliance as the filing and reporting of all the details a taxpayer needs by the

tax authorities, the proper self-assessment of the tax due and, above all, the timely payment of those amounts. If a tax payer fails to file tax returns, disclose income wrongly, misreport the deductions or income tax amount, then non-compliance occurs (Mo, 2013). Compliance with tax payment is the act of taxpayers to pay the amounts of tax owed, whereas non-compliance describes the difference between what a taxpayer has paid and what he or she should have paid (Basu & Altinay, 2012).

In many instances, the disparity in what was paid and what was to be paid in taxes stems from overestimated or understated incomes, deductions and also taxpayer expenditures (Ahmed & Braithwaite, 2015). Theoretically, taxpayers and tax collectors' views are that tax compliance imply adhering to tax laws that vary among different countries. The purpose of tax administration is to encourage voluntary and conscientious compliance with taxation laws (Baer & Silvani, 2017) and hence reduce tax gap (difference between taxes paid and owed for all taxes and all taxpayers) and compliance gap. Cobham (2015), posits that tax compliance is a problem for many countries. However, he also acknowledges that it has recently improved for some countries globally.

The aspect of tax understanding (knowledge of the tax system, awareness of tax obligation & availability of information) in relation to tax compliance is the understanding about tax laws and opportunity available for tax evasion. (Kasipillai & Noor, 2013). Knowledge is a primary determinant of tax compliance because it is closely linked with the taxpayer's ability to recognize tax laws and regulations and also with their ability to comply. Tax compliance costs (employee resources, professional fees & computer systems, training and time spent) are expenses incurred by taxpayers in the process of fulfilling taxation laws. (Sandford, *et al* 2019).

The taxpayer's perception of how the tax system is fair has an influence on the attitude of the taxpayer on the payment of taxes (Coskun & Savasan, 2019). Mutual trust and cooperation between the taxpayer and his tax authority boost voluntary compliance (Ahmed & Braithwaite, 2015). For taxpayers whose motive is to demonstrate their belief in a system, they will evaluate the tax system with objectivity but if the taxpayer's attitude is motivated by the derived benefits then, he will regard the tax system as fair if he benefits from it. If tax collections are not properly utilized and accounted for by the government,

then there will be lack of taxpayer's commitments to the payments of taxes (Young, Danny & Daniel., 2013). The perception of fairness depends on how the taxpayers perceive the authority's actions.

Another factor that influences tax compliance is deterrence and norms. Deterrence is based on the concept that the risk of detection and punishment will improve compliance behaviour. Under this approach, taxpayers pay their taxes for fear of being caught and penalised by the government through use of a fine and a penalty (Young, *et al.* 2013). A fine as a punishment or penalty is imposed on an individual for any violation of the law, (Radhakrishanan, 2018). Taylor (2011) discovered a link between detection risk, formal sanctions and tax compliance. In circumstances where a taxpayer fails to; register for the tax obligation, submit a tax return, settle the tax liability and keep proper records will be penalized. Effective application of fines and penalties can minimize cases of tax non-compliance. Ahmed and Braithwaite (2015) view deterrence as a double-edged sword, because it can reinforce the moral obligation to pay tax by pointing out what is right to do but can also have a positive or negative impact on enforcement. If personal norms are strong, compliance is strong, the impact of deterrence on compliance is weak. Taxpayers then are obedient because they feel that it is the right thing to do, not because they fear punishment. Yet deterrence becomes more important when the personal norms are weak (Wenzel, 2014). If a moral obligation to pay tax does not affect the taxpayer then the threat of punishment can have a positive effect on behaviour.

The use of the term SME or even its definition vary. To highlight a case, the economic surveys by the Kenya National Bureau of Statistics take the informal sector to represent SMEs. This is a definition shared by the SME authority. However, the 1999 SME survey notes that SMEs cuts across formal and informal sectors. At times conflicting data is published in the same document. Ward (2015) argues that there is no universal definition for SMEs since the definition relies upon who is defining it and in what context is it being described. SMEs are usually characterized by the work estimate: small enterprises have 10-49 employees while medium measured enterprises have somewhere in the range of 50 and 99 employees. Small businesses generate significant revenue for the tax system besides the wage paying tax payers who are only subject to income tax deducted in the net tax.

Moreover, the small enterprises (SMEs) contribute significantly to the informal economy that runs outside the tax net (KIPPRA, 2013).

Most nations whose economies are in the developmental stage have witnessed rapid growth in their SMEs. Compliance with tax payments by these entities varies from country to country, in some cases the owners choose to comply willingly while in other cases compliance comes as a result of law enforcement authorities (ICPAK, 2015). Nonetheless, many small businesses choose to enter the informal economy sector for reasons such as the challenging process of compliance and the possibility of non-compliers gaining a comparative advantage against them (Nyangau, 2017).

Informal traders licensed by county governments in Kenya started paying a presumptive tax of 15 per cent based on their single business permit fee starting January 2020 (KRA, 2018). The Finance Act, 2006 introduced taxation of the sector through a turnover tax. Turnover tax was charged at 3% of sales turnover and was to be submitted quarterly to the tax agency (Onyango, 2016). However, this system of taxation has largely been unsuccessful and the levels of compliance have remained low due to the profile of the sector (Terkper, 2013). The move ushers in a new strategy on collection of taxes, where small enterprises will be required to bank upfront the 15 per cent levy to government tax account before renewing single business permits or trading licences from their respective county governments (KRA, 2018).

Tax compliance among SMEs is varied among countries. Helhel and Ahmed (2012) reveal that SMEs in Yemen voluntarily comply with the tax regulations of the country. In Brazil, Roth et al., (2015) posits that it is the fear of stiff tax penalties, which compel SMEs to comply with tax laws. In Botswana, Nkwe (2013) reveals that as result of favourable tax environment, high voluntary compliance among SMEs has been encouraged. Gilligan and Richardson (2015) in a culturally diverse investigation found that intentional compliance was most reduced in Australia because of absence of tax information inside the nation and the most noteworthy was in Singapore in light of the tax learning given to the people before they set out on a business.

Alm (2012) in his study of Rwanda found that the vast majority of the SMEs don't have the information of tax guidelines and in this manner don't intentionally consent. Cuccia (2013)

records poor deliberate compliance dimensions of SMEs with tax guidelines in an investigation situated in Malaysia since they don't put stock in the tax framework. In Zimbabwe, SMEs don't sufficiently follow tax laws (Nyamwanza *et al*, 2014). Their exploration uncovered that most SMEs avoid tax by paying rewards, migrating or briefly shutting business during compliance barrage. In Tanzania, Lubua (2014) posits that SME taxpayers did not wilfully document their profits as legally necessary. These issues therefore, portray a situation that needs to be corrected given that their overall tax revenue contribution hardly goes beyond five per cent of total tax collection (Mutua, 2011). They are commonly referred to as hard to pay taxpayers who are characterized by low tax compliance which can be either by ignorance or by intent (OECD, 2012).

Voi town owes its origin to the construction of the Kenya-Uganda railway line during the late 1890s where small businesses largely owned by Indians constructing the railway line began to spring up. Over the years Voi has grown to be a central business hub especially for the agricultural and meat products from the fertile Taita Hills as well as other surrounding areas like Taveta. Voi's town centre consists of mostly general stores, shops, markets, kiosks and a few hotels. Having been located in the vast Tsavo plains, it is largely a wildlife territory, with game roaming from the Tsavo National Park.

1.2 Statement of the Problem

Tax plays an important role in the growth of any economy so tax evasion is harmful to the economy. Tax evasion especially among SMEs, hampers government revenue collection thus inefficiency in Government spending because it diminishes the capacity of the state to mobilize domestic revenues, resources that are needed for investments. In 2010, for example the amount lost to tax evasion represented about twice the amount the country spent on health care. Tax evasion also damages the country's growth capacity by discouraging both local and foreign investors. The high tax rate and burden in Kenya, which is related to the high levels of tax evasion, is the leading disincentive to business activity (Karingi & Wanjala, 2015).

The increasing trend of disparity between the levels of submitted annual income tax returns, reported tax assessments and voluntarily paid tax liabilities, among SMEs, on the one hand, and the trend of business birth and growth, on the other hand, has been a cause of concern

to the government of Kenya. This resulted in the government offer of an olive branch to taxpayers through the tax amnesty announced by the Minister for Finance in Kenya in 2014 (GoK, 2014). A report by, Parliamentary Budget Office (2010) shows that in 2008 the government could have increased the tax base by approximately Kshs.79.3 billion if the tax evasion among SMEs was addressed. According to the KRA annual report for year ended 2012, the amount lost in form of taxes was Ksh 108 billion which can be directly attributed to the informal sectors and SMEs (KRA, 2013/14).

Studies carried out in the past in this study area revealed that scholars concentrated on either the cost of compliance, education level, tax information, income level, tax rate, age group and marital status. Omeri et al., (2010) did research on how the taxpayers' attitudes influenced compliance behaviour among SMEs business income earners in Kerugoya town and found a positive association. Nduruchi, Nambuswa and Namusonge (2017) investigated the determinants of tax compliance among Small and Medium Enterprises in Bungoma county, Kenya. The relationship between tax compliance and cost of compliance was found to be negative and significant. Gitaru (2017) looked at the effect of taxpayer education on tax compliance amongst SMEs located in Nairobi Central Business District and found a positive association.

Musyoka (2019) studied the effect of tax reforms on voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya and found evidence of a positive association. The existing studies have also been conducted in cities where the dynamics related to geographical location, population, economic endowment, efficiency of administration and interest in entrepreneurship differ with Voi sub county. Moreover, past studies have found conflicting findings with some indicating a positive association while other a negative association. It is this knowledge gap that this study sought to fill by evaluating the factors affecting tax compliance of small traders in Voi sub county, Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the study was to establish the factors affecting tax compliance of small-scale traders in Voi sub-county, Kenya.

1.3.2 Specific Objectives

This study aimed to address the following specific objectives which form the inference for the research questions.

- i) To evaluate the effect of tax knowledge on tax compliance among small scale traders in Voi Sub-county, Kenya.
- ii) To determine the effect of compliance cost on tax compliance among small scale traders in Voi Sub-county, Kenya.
- iii) To assess the effect of technology on tax compliance among small scale traders in Voi Sub-county, Kenya.

1.4 Research Questions

This research sought to address the following research questions;

- i) What is the effect of tax knowledge on tax compliance among small scale traders in Voi Sub-county, Kenya?
- ii) What is the effect of technology on tax compliance among small scale traders in Voi Sub-county, Kenya?
- iii) What is the effect of cost of compliance on tax compliance among small scale traders in Voi Sub-county, Kenya?

1.5 Significance of the Study

The research aimed to establish the factors affecting tax compliance status of small-scale traders in Voi Sub-county, Kenya.

1.5.1 Contribution to Researchers

The impact of tax compliance on the operations of Kenya Revenue Authority in Kenya and indeed the economy at large is of interest to researchers and industry practitioners. This study findings will serve as a stepping stone for new research on taxation. Besides, researchers and students who want to know more about taxation, its causes and possible ways of preventing it can also find the study beneficial. Hence, it will serve as a reference point for future researchers and a blue-print for policy makers.

1.5.2 Contribution to Policy Makers

The findings of this study will assist various policy makers including the Kenya Revenue authority, the government of Kenya and other line ministries in developing effective policies to enhance tax compliance by SMEs and to reduce tax non-compliance to acceptable levels. It will also aid the government in realization of the targeted vision 2030 through growth and development because the SME is a rising sector and a major indicator of growth and development.

1.5.3 Contribution to Management

This research is expected to be of benefit to Revenue managers who are saddled with the responsibility of ensuring that taxpayers are not negligent in paying their taxes. It will also assist in knowing why taxes are evaded. The outcome of this research will enable them to have a better understanding of why taxpayers evade taxes.

Therefore, when these reasons are adequately appraised, it is expected that it will in turn translate to the provision of necessary infrastructure for the society when the resources are judiciously utilized. This research will provide a better understanding of tax compliance as an important concept not only for tax purposes but also for the growth of SMEs in Kenya.

1.6 The Scope of the Study

The research aimed to evaluate the factors affecting tax compliance and their effects on tax collection in the SME sector in Taita Taveta County. There are many SMEs in the county but the research will focus on SMEs in Voi Sub-county. It is assumed that the SMEs in Voi

Sub-county give a reflection of what is happening in other parts of the county and the country at large.

1.7 Limitations of the Study

The idea of the investigation calls for secret data identified with the SMEs. Respondents felt interfered when asked for to complete a poll which expects them to unveil such data. With a specific end goal to moderate this deficiency the respondents were guaranteed of classification and moral treatment of the data. The constraint of suspicion facilitated poor cooperation from respondents. Occasionally, the researcher encountered respondents who did not cooperate. The researcher also anticipated that respondents may not be willing to give out unbiased information due to fear of victimization. The above limitations were addressed by the researcher who personally talked to the respondents and explained that the research is purely for academic purposes and the identity of the respondents would not be revealed under any circumstance and the management was aware about the research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature. A methodological review of past literature is a crucial endeavour for any academic research. The need to uncover what is already known in the body of knowledge prior to initiating any research study should not be underestimated. This chapter reviews literature on tax compliance in the SME sector of the economy.

2.2 Theoretical Review

Considerable amounts of interest have been shown in studying people's reaction towards taxes, especially in the fields of public finance, law and economics. It is apparent that discussions about taxation are incomplete without a mention of some form of tax reduction behaviour. The following are theories that seek to explain factors impacting on SMEs tax compliance.

2.2.1 Economic Deterrence Theory

The theory posits that taxpayers try to maximize on the benefit associated with tax evasion, through "playing the audit lottery" (Trivedi & Shehata, 2005). The probability of detection for audit, coupled with the consequences either encourages or deters taxpayers. The taxpayers finally make a choice of the alternative which maximizes their economic benefit, hereby discussed as after-tax return (Awa & Ikpor, 2015). For such taxpayers, Walsh (2012) argues that increasing audit visits, interest and penalties would affect their compliance levels. The economic deterrence theory was first discovered in the late 1960s from crafted by Becker, who broke down illicit conduct utilizing a financial express that taxpayer's conduct is affected by variables, for example, the tax rate deciding the advantages of evasion, and the likelihood of recognition and punishments for extortion which decide the expenses. This infers if location is likely and punishments are extreme, few individuals will dodge taxes.

Conversely, under low review probabilities and low punishments, the normal come back to evasion is high. The model at that point predicts considerable noncompliance. For instance, the fear of getting captured, or the likelihood of recognition, has been observed in certain settings to be an effective technique to prompt honest conduct. The hypothetical standards of monetary deterrence have likewise been broadly embraced by tax organizations when creating implementation procedures that depend on punishments and the dread of getting captured (Awa & Ikpor, 2015).

The relevance of this theory in SMEs tax compliance is that when there is low probability of audit and penalties, tendency for evasion by small scale traders will be higher, while if there is a high tendency for detection and the penalties are severe, fewer small-scale traders will evade filing and payment of taxes. This theory is trying to link the benefits small-scale traders will accrue when they evade tax or the losses they will incur when they are found to be non-complaint. This theory therefore highlights that the knowledge a taxpayer has on taxation influences their ability to comply or not.

2.2.2 Fiscal Psychology Model Theory

The theory of Planned Behavior which was developed by Ajzen and states that Psychology theories of tax compliance assume that psychological factors - like moral and ethical concerns are also significant to taxpayers and thus taxpayers may comply even where the risk of audit is low. This theory of tax compliance assumes that psychological factors including moral and ethical concerns are also important to taxpayers. Regardless of the risk of being caught, the taxpayers' attitude to voluntary compliance would still remain high. Psychology theories de-accentuate reviews and punishments; rather than centre around changing individual demeanours towards tax framework (Trivedi & Shehata, 2005). As indicated by this hypothesis, practices of the people inside the general public are affected by explicit components, begin from specific reasons and do the trick in an arranged manner. The capacity to play out a specific conduct relies upon whether that individual has a reason towards that conduct (social aim). Conduct goal thus rely upon three factors that is attitude towards the conduct, subjective standards and perceived social control (Nurwanah, Sutrisno, Rosidi & Roekhudin, 2018)

These three components are likewise affected by social convictions, standardizing convictions and control convictions. The focal point of this hypothesis is on the taxpayer's ethics and morals. The hypothesis recommends that a taxpayer may go along notwithstanding when the likelihood of location is low. Instead of the financial speculations that underscore on expanded reviews and punishments as answers for compliance issues, mental hypotheses lay accentuation on changing individual frames of mind towards tax frameworks. Trivedi and Shehata (2005) demonstrated that a few taxpayers' conduct may pursue monetary speculations while others may pursue the mental hypotheses and a blend of the two is conceivable. Governments driven by the desire to increase compliance for psychology-based taxpayers do so by increasing taxpayer education, reducing operational costs of return filing.

2.2.3 Prospect Theory

This theory suggests that If fines are imposed on the evaded tax, and if tax payers. Preferences satisfy the (theoretically and empirically plausible) assumption of decreasing absolute risk aversion (DARA), then the Expected Utility Theory (EUT) model of tax evasion predicts a negative relationship between tax rates and evasion (Yatzaki, 2014). Much empirical and experimental evidence, however, predicts a positive relationship between evasion and the tax rate (M,Bernasconi & a Zarnardi, 2014) Owing to its lack of empirical support, and its counter-intuitive nature, the negative relationship between tax rates and evasion predicted by the EUT model has sometimes been termed the Yitzhaki paradox or Yitzhaki puzzle.. (Dhambi & Al- Nowaihi 2017) claim to show that prospect theory provides a much more satisfactory account of tax evasion including an explanation of the Yitzhaki puzzle.

Prospect theory suggests that advance tax payments may play an effective role in tax enforcement strategy. (ClotFelter, 2013) found that voluntary compliance rates in the United States increased consistently with the amount of refund that taxpayers expected to receive upon the filing of a tax return and decreased consistently with the amount of taxes that they still had to pay. (Chan, 2010) confirmed experimentally the empirical findings for the United States and several European countries, whereas (Berkery, 2012), documenting diaries of taxpayers' tax-related thoughts and behaviours.

This theory suggests further suggest that taxpayers thought primarily in terms of the out of pocket gains and losses at the time of filing, concluding that whether taxpayers expect to receive a refund or have to supplement their prepaid taxes is important for the understanding and control of taxpaying behaviour. In other contribution, (Carnes 2016) suggest that prospect theory, developed by (Kahneman & Tversky 2019), may help explain taxpayers' observed behaviour under obligatory advance tax payments.

2.3 Conceptual Framework

The Conceptual Framework gives a depiction on how the variables are related to one another. The variable defined here are the independent and dependent variable (Cooper & Schindler, 2011). An independent variable influence and determines the effect of another variable (Mugenda & Mugenda, 2013). Figure 2.1 describes the relationship between the variables of study. Accordingly, factors and practices serve as the independent variable while tax compliance is the dependent variable. For the purpose of this study, compliance cost, tax knowledge and technology These independent variables were studied in relation to tax compliance as the dependent variable.

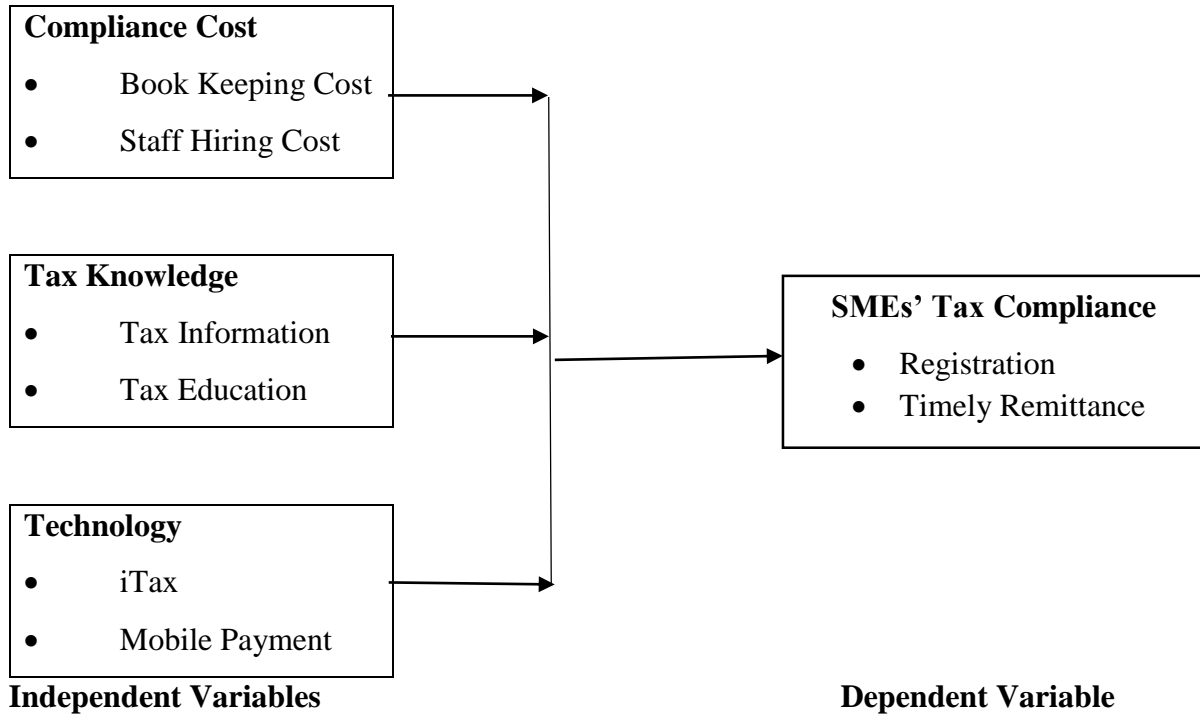


Figure 2.1: Conceptual Framework

2.4 Review of Study Variables

2.4.1 Compliance Cost

A compliance cost is expenditure of time or money in conforming with government requirements such as legislation or regulation. For example, people or organizations registered for value added tax have the extra burden of having to keep detailed records of all input tax and output tax to facilitate the completion of VAT returns. This may necessitate them having to employ someone skilled in this field, which would be regarded a compliance cost. Compliance costs normally include all costs associated with obeying the law, including planning and administration, in addition to the direct time and money spent filing paperwork (Coolidge, 2010).

Businesses especially small ones often face heavy costs in the process of preparing, filing, and paying taxes in addition to the burden of tax payments. These compliance costs, added to fines, penalties, and the risks of inspections and demands for bribes, often deter business creation and growth in developing and transition countries. A tax compliance cost survey

can provide useful information for the design of reforms to reduce compliance costs and risks for small businesses. This note highlights key findings of tax compliance cost surveys conducted in South Africa, the Republic of Yemen, Ukraine, and Peru that measured the burdens on business. These surveys helped fine-tune the design of reforms to lower costs for businesses and improve their competitiveness (Coolidge, 2010)

High compliance costs can result in tax avoidance, tax fraud, and inhibit investment by way of diminishing competitiveness of the country in terms of taxation attractiveness (Ojeka, 2012). The full cost of a tax system is more than simply the amount of tax paid. It also includes the cost of tax planning and paperwork. Economists call these "tax compliance" costs, and the IRS estimates Americans spend 6.6 billion hours per year filling out tax forms—including 1.6 billion hours on the 1040 form alone (Ojeka, 2012).

In a study carried out on tax compliance and simplifications by OECD, (2014) established that compliance costs tend to increase with the number of taxes that an entrepreneur is subject to, the complexity of the tax rules, the frequency of submitting tax returns and the number of levels of government involved in levying and collecting taxes. Taxes introduce complexities and costs not relevant to SMEs and the complexities may increase where more than one level of government is involved for example the devolved government in Kenya. This results to SMEs avoiding the paying of taxes as it affects the business.

2.4.2 Tax Knowledge

Knowledge is categorized on the basis of ordinary or official education received and knowledge towards opportunity to evade tax (Groenland & Veldhoven, 1983). Tax knowledge as one of the key factors in tax compliance has a very close relationship with the taxpayers' ability to understand the tax law & regulations, and their ability to comply (Singh, 2003). Taxpayer education exists to encourage voluntary compliance through service delivery to taxpayers. Low levels of voluntary tax compliance will compel revenue authority to use costly and coercive methods to enforce compliance (Fjeldstad & Ranker 2003).

Kileva (2007) opine that the education component will deal with compliance matters in the informal sector. This is premised on the possibility that non-compliance being unintentional

due to the ignorance of the law or may be intentional due to the negative compliance attitudes. King'oina (2014) researched on factors that affected the compliance of value added tax among construction firms in Kisumu and discovered that tax compliance is highly dependent on tax knowledge and understanding. A Better understanding of laws on VAT promotes voluntary compliance. Normala (2007), identified a move from the official assessment of taxes, to self-assessment system in 2004. Under the self-assessment system, tax payer pays taxes to the revenue authority obligatorily, auditing was also conducted to ascertain whether returns and payments declarations were accurate as the systems campaigns for voluntary tax compliance. It was observed that an increased tax knowledge consequently increases the level voluntary tax compliance.

2.4.3 Technology

The use of automated systems has proven to be capable of introducing massive efficiencies to business processes at a minimal cost (Wasao, 2014). Due to the bureaucratic structure of government which is costly to manage with little or no result, tax authorities as an agency of government are turning to e-government led solutions like electronic tax filing (Ambali, 2009). Electronic filing and payment in Kenya were introduced in 2007, initially on a voluntary usage basis for all categories of income tax payers, through an online system. But in 2013, a new online system, iTax was introduced with improved modalities. Through this system, a taxpayer is able to register as a taxpayer, file tax returns, make payments, view one's ledger record, apply for and receive tax refunds, apply for and obtain through e-mail Tax Compliance Certificate (TCC), and even make follow-up on KRA audit queries (Wasao, 2014).

Ambali (2009) opines that electronic filing is dependent on the use of technology. Technology used in e-filing and payment comprise of computer, internet and software applications. Electronic filing can be measured when the desired outputs are realized. Andarias in his research inferred that technology in tax administration means integrated software with a one-stop-shop implementation; comprehensive work flow systems where every document or form is included in the information system; easy-to-use internet websites with online information and payment option.

Customer service network connected by fast lines; mobility to allow service in remote areas and real-time process monitoring. Lack of ICT knowledge may complicate the implementation of any tax law no matter how simple the law is. Kenya taxes are automated hence ICT skills are necessary for all taxpayers. If a taxpayer's attitude towards technology is negative, there is a likely chance they might not comply in filing returns and paying taxes online. It is therefore important for the taxpayers and general public to be educated on how to use the online tax system to enhance tax compliance.

2.4.4 Tax Compliance

Tax compliance can be termed as voluntary evaluation of tax owed to the government by individual taxpayers and remitting the same devoid of delays (Jones, 2019). There exist three dimensions of being tax compliant: filing, reporting, and payment compliance. Consequently, failure to accomplish the three dimensions renders a taxpayer non-compliant. The goal of tax reforms in most countries is to achieve a higher voluntary compliance and one way of doing is the introduction of electronic filing systems (Khadijah, 2014). Regardless of what the reasons advanced, a tax fails to the extent that it's avoided or refrained from. Tax compliance which is the focus of this study is the willingness of SMEs to comply with law and administration on taxation without being forced to (Kanyinga, 2016).

Voluntary compliance is made conceivable by the trust and participation following between tax expert and taxpayer and it is the ability of the taxpayer all alone to consent to tax specialist's mandates and guidelines. Deliberate tax compliance alludes to a suspicion or rule that taxpayers will agree to tax laws and, all the more critically, precisely report their pay and findings sincerely (Manhire, 2015).

For the most part, tax compliance is for the most part accomplished when greater part of taxpayers intentionally documents their tax returns and make good on resultant government obligation liabilities as stipulated in the tax laws, without the intercession of the tax specialists through authorization (Mwangi, 2014). A high level of intentional compliance spares the tax experts from mind-boggling expense of income accumulation, ensures an enduring progression of income for advancement and helps the acknowledgment of different tax approaches (Fuest & Riedel, 2010).

2.5 Empirical Review

The empirical review presents international, regional and local studies conducted in the past to establish the factors affecting the tax compliance status of small-scale traders in different countries. Inasius (2019) determined the factors influencing SME tax compliance in Indonesia. Using multiple regressions, six tax compliance factors are examined. Data were collected through a survey conducted in Jakarta using 328 respondents who are small business taxpayers. A researcher-administered questionnaire survey method was used for data collection. The results reveal that referral groups, the probability of audit, tax knowledge, and the perception of equity and fairness have a significant impact on tax compliance.

Evans et al., (2005) explored the relationship between record keeping practices and tax compliance of SMEs in Australia. The research used a mixture of qualitative (focus group) and quantitative (survey) methodologies and involved more than 500 small business owners and managers, over 300 tax practitioners, and a small number of ATO auditors. A direct relationship between poor SME record keeping practices and adverse tax compliance outcomes was observed. Poor record keeping did not necessarily translate to higher compliance costs.

Wadesango, Mwandambira and Mhaka (2018) evaluated the impact of tax knowledge initiatives on tax compliance among small medium enterprises (SMEs) in Zimbabwe. To achieve this, a quantitative research approach was used involving a sample of 35 SMEs and 40 tax officials. The study found that enhancing tax knowledge on its own without reforms to address the high tax rates and corruption would not positively impact on tax compliance behaviour among SMEs. The study found that even if taxpayers were aware of the uses of tax money and hence the importance of paying their taxes, they would still not comply if they perceived that there was not accountability and some of the funds were not used for their intended purposes.

Gотора and Mokaya (2018) investigated the influence of tax payer education on voluntary tax compliance in Tanzania focusing on the case of Monduli District Office. The study applied a descriptive study design. The study found that that education through print media, website-based taxpayer education, and tax stakeholders' workshops had a significant effect

on the level of voluntary tax compliance in Tanzania. Further, print and electronic media taxpayer education programmes greatly improved voluntary tax compliance. These programs were found to improve the taxpayers' ability to understand tax laws, that is rates of tax, filing and paying dates among others.

Kanyinga (2016) investigated the effect of tax reforms on compliance with turnover tax among small and medium enterprises in Industrial Area, Nairobi. The study used a descriptive survey research design. The found that taxpayers' e-Registration and e-Filing had positive and significant effect on tax compliance in SMEs sector. The study noted that a majority of the SMEs under study used e-tax registration and filed their returns online. This reduced tax compliance burden and made submitting tax returns easier as taxpayers did not have to queue at revenue authority filing returns. The SMEs agreed that the introduction of iTax were the main drivers to compliance and hence more revenue collection.

Okore (2017) explored the approaches to enhancing tax compliance among briefcase companies in Kenya. The study was based on inferential analysis. The study pointed out the evidence of operation and compliance with the various tax laws was crucial in enforcing tax compliance. The study noted that the main aim of tax compliance certification was to ensure that any business dealing with government was a compliant on all tax requirements in that it had filed returns and paid tax due. The study found that the requirement for TCC was a major catch for the companies wishing to trade with the government as most of the businesses would want to be certified to gain the trust of the government and therefore goodwill.

2.6 Research Gaps

A conceptual gap exists in Kanyinga (2016) study that investigated the effect of tax reforms on compliance of small and medium enterprises in Industrial Area and Okore (2017) study on the approaches to use to enhance tax compliance among briefcase companies in Kenya. The variables used in both studies are different from the current study variables hence the conceptual gap. Other studies especially international and regional studies presented a contextual research gap since the focus was outside Kenya therefore their findings cannot be generalizable to Kenya. Such studies include: Inasius (2019) who determined factors

influencing SME tax compliance in Indonesia; Evans et al., (2005) who explored the relationship between record keeping practices and tax compliance of SMEs in Australia and Gatora and Mokaya (2018) who investigated the influence of tax payer education on voluntary tax compliance in Tanzania.

Methodological research gaps also exist in the studies reviewed. The study by Okore (2017) only uses descriptive analysis same as the study by Kanyinga (2016). The current study employed both descriptive design and the inferential statistics to analyze data.

2.7 Summary of Literature

From the review of literature, it is clear to date, there has been research exploring factors that influence compliance among SMEs. The main objective of this study was to identify the factors that affect tax compliance among SMES. The research focused compliance cost, technology and tax knowledge. The research outlined in this paper aimed to address the tax gap of non-filing, under reporting and under payment. The specific aim of the research was to gain insight into the factors that influence the tax compliance among SMEs in Kenya by focusing on those operating within Voi Sub-County. It is expected that the findings will help decision makers and particularly K.R.A gain a better understanding of SMEs enabling them to plan and design services more effectively.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter entails the research methodology that was applied throughout the study in achieving the research objectives. Research methodology is the systematic theoretical analysis of the methods applied to a field of study. It comprised of the theoretical analysis of body of methods and principles associated with a branch of knowledge. Typically, it encompassed concepts such as paradigm theoretical model, phases and quantitative or qualitative techniques (Irny & Rose, 2015). It shows the population of the study, the research design used, data collection method applied and the data analysis criteria employed.

3.2 Research Design

A research design is an arrangement of conditions a researcher intends to follow while conducting the study, it is the blue print on ways to carry out the study while seeking to answer research questions (Kothari, 2013). This research adopted a cross-sectional survey where the population of interest in the Sub-County SMEs were visited and data collected through questionnaire. A cross-sectional survey is defined as an observational research type that analyzes data of variables collected at one given point of time across a sample population, population or a pre-defined subset. This study type is also known as cross-sectional analysis, transverse study or prevalence study. The data collection in a cross-sectional study is from people who are similar in all variables except the one variable which is under study. This variable remains constant throughout the cross-sectional study. Alise and Teddlie (2010) opined that cross-sectional survey is concerned with finding out the what, where and how of a phenomenon and the research design will be chosen because it will enable the researcher to generalize the findings to the larger population. The design was deemed appropriate because the chosen SMEs are typical of many others and therefore stands as a representative of the whole class.

3.3 Population

Creswell (2010) depict population as all components that meet the criteria for consideration in an examination and furthermore express that population incorporates all components that meet certain criteria for consideration in an investigation. While, Newing (2011), depicts a population as the arrangement of sampling units or cases that the analyst is occupied with. The target population for this study was 130 SMEs from all the SMEs registered in Taita Taveta county database of 2020.

Table 3. 1: Target Population

Categories	SMEs	Percentage
Financial services	18	13.8%
Supermarkets and shops	22	16.9%
Production	14	10.8%
Hoteliers	22	16.9%
General hard wares	16	12.3%
Transport services	19	14.6%
Information & Technology services	19	14.6%
Total	130	100%

Source: Voi SMEs database (2020)

3.4 Sampling Frame

Sampling frame is a list of all individuals of the population a researcher intends to study (Borg & Gall, 2013). While Ngulube (2013) defines sampling frame as the list of the names where the researcher intends to obtain a sample from the population. Borg and Gall (2013), further adds that sampling frame must be representative of the population and people out of the frame have no chances of being sampled. It is important in ensuring that we are not subjected to unsatisfactory samples. The sample frame of this study constituted of SMEs from the following categories: financial services, supermarkets and shops, production, hoteliers, general hardware, transport services and information and technology services.

Sampling frame is important in ensuring that the researcher is not subjected to unsatisfactory samples.

3.5 Sample Size and Sampling Technique

Cooper and Schindler (2013) describe sample or sample size as a subject of a population that is studied through a research study and generalized into the entire population. The study adopted stratified random sampling procedure as it enabled the population of interest if not homogeneous to be subdivided into groups or strata so as to obtain a representative sample. It also gave each SME in the population an equal chance of being selected. Kothamaraman (2010) avers that a large sample size reduces sampling variability and also reduces the probability of biases. In order to select appropriate sample size, the study employs probability sampling technique and in particular stratified sampling. As defined by Mugenda and Mugenda (2013), any meaningful study, 10-20% of the sample is adequate. The frame is organized into separate "strata." Each stratum is then sampled as an independent subpopulation, out of which individual elements were randomly selected.

A formula was used to calculate the sample size as illustrated by Godden (2004).

$$SS = Z^2 \times P (1-P)$$

Where "SS" = infinite population's sample size (more than 50,000), "z" = z value of 1.96 for 95% level of confidence. , "M" = the acceptable margin of error for proportion being estimated = 5% and 'P'= the population proportion expressed as decimal assumed to be 0.5(50%) since it would provide the maximum sample size. This produces maximum possible sample size.

$$SS = \frac{Z^2 \times P (1-P)}{M^2}$$

$$SS = \frac{1.96^2 \times 0.5(1-0.5)}{0.05^2}$$

$$= 384$$

Below is the formula to be employed for a finite population sample size.

$$Ss = \frac{SS}{(1 + (\frac{SS-1}{Pop}))}$$

Source: Godden (2004).

Where SS= the required sample size for infinite population, Ss = the finite population sample size, pop= the finite population (well-known as target population).

$$Ss = \frac{384}{(1+(384-1))}$$

130

$$Ss = 98$$

Stratified sampling was used to pick the 98 SMEs staffs from 130 SMEs in the county from the various categories of business as per Voi Town Business Database (2020). This makes up 75% of the population and which was adequately representative.

Table 3. 2: Sampling Table

Categories	SMEs	Sample Proportion	Sample Size
Financial services	18	75%	13
Supermarkets and shops	22	75%	16
Production	14	75%	10
Hoteliers	22	75%	16
General hand wares	16	75%	15
Transport services	19	75%	14
Information & Technology services	19	75%	14
Total	130	75%	98

Source: Voi SMEs database (2020)

3.6 Data Collection Instrument

The study adopted the questionnaire as the main data collection tool. A questionnaire is a research instrument that consists of a set of questions or other types of prompts that aims to collect information from a respondent (Jackson, 2008). A research questionnaire is typically a mix of close-ended questions and open-ended questions. Structured questionnaires consisting of close ended questions were used for the study. They have benefits such as high information reliability, offering in-depth information on individual events, being systematic, time-saving and detailed, in addition to providing quantifiable data (Shao, 2019).

3.7 Data Collection Procedures

In order to produce data for this research, the researcher obtained a letter of introduction from KESRA that was forwarded to the Taita Taveta County for permission to conduct research in the county. The researcher then visited the sampled informal SMEs to make appointments with the respondents. After receiving informed consent, the researcher, with the aid of research assistants, then collected information from respondents about the dates decided through direct communication. Questionnaires comprised of closed ended aspects in line with the objectives of the study. For closed ended questions a five-point Likert scale was used. Business owners and employees were given the questionnaires.

Prior to the questionnaire administrations, instructions were carefully explained to the respondents after assuring them that the information provided would be confidential and will only be used for study purposes. Respondents were given sufficient time to obtain sufficient answers to the questions after which the completed questionnaires were reviewed for completeness and accuracy and cleaned for error removal.

3.8 Pilot Study

Singh (2014) suggests that before the researcher obtains data from the field, it is required that a pre-test of the data collection tool must be done. This involves checking for the suitability of the questionnaire. The quality of research instrument determines the outcome of the study. Piloting promotes clarity of the questionnaire items and ensures that the generated data is meaningfully analysed in relation to the stated research questions. Piloting

also helps to establish whether the questionnaire is valid, the respondents interpret all questions in the same manner, the wording is clear and also helps eliminate potential research bias. The questionnaires were taken to informal traders in Wundanyi sub county. A sample size of between 10%-50% is acceptable (Mugenda & Mugenda, 2013). The researcher thus selected a sample size of 10 per cent for this study which represents 14 informal traders in Wundanyi sub county. These 14 informal traders were not included in the study sample. After piloting, adjustments were made in order to address areas of concern.

3.8.1 Validity

Mugenda and Mugenda (2013) define validity as a measure of the degree to which data accurately reflect a phenomenon under research obtained from an instrument. Testing the validity of research instruments helps the researcher to be sure that the items measure the desired constructs. Content validity was ensured by seeking the views of the researcher's supervisor who checked the questions against the objective (Mugenda & Mugenda, 2013). Construct validity was attained by ensuring that operationalization of the variables is founded on theory (Coopers & Schindler, 2013); In this case the theories that formed the basis of the study were used. Face validity was attained through the research supervisor and by conducting and getting feedback from the pilot group (Coopers & Schindler, 2013).

3.8.2 Reliability

It's a measure of how accurate the results of a research instrument are after repeated trials (Singh, 2014). Kothari (2004) also opines that if a measuring instrument produces consistent results, it is accurate. Cronbach alpha α (coefficient of alpha) were used to authenticate the instruments internal consistency through the use of the SPSS software. It's a statistical reliability tool that is used to measure reliability or internal consistency of questions on the Likert scale (Andrew et al., 2011). Cronbach Alpha greater than 0.7 is appropriate and interpreted to mean the scale is reliable. Questions from the pilot study with low Cronbach Alpha were amended and removed from the questionnaire.

3.9 Data Analysis and Presentation

Collected data was first checked for accuracy before analysis was done. Only fully filled questionnaires were considered so as to help in testing for the distribution of data. Data was analyzed using both descriptive and inferential statistics. The descriptive statistics used included mean, standard deviations, percentages and frequencies. According to Kothari (2013) the clustering tendency and describing of data characteristics can be done using descriptive statistics. Statistical Package for Social Sciences was used to compute, analyze and present the research findings. The collected data was first coded to enable the categorization of the responses. Data was also cleaned by checking for any errors that may have been committed during entry. Thus, interpretation of the data was done by drawing inferences from the computed correlation, coefficient of determination, ANOVA and regression coefficient tables. The findings of the study were presented using tables and equations. The following regression model:

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

Where:

Y = SMEs Tax Compliance

β_0 = constant (coefficient of intercept)

X1 = Compliance Cost, X2 = Tax Knowledge, X3 = Technology

$\beta_1, \beta_2, \beta_3$ = regression coefficient of compliance Cost, tax knowledge and technology respectively.

ε = Error term

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

The study focused on factors affecting tax compliance of small-scale traders in Voi Sub-County. This chapter will focus on the response rate, pilot study results depicting validity and reliability of the research instruments, general information, descriptive statistics and inferential statistics (Pearson correlation, coefficient of determination, ANOVA, regression coefficients).

4.2 Response Rate

As shown on table 4.1, 98 questionnaires were distributed to the various SMEs in the sub-county, but only 72 of the questionnaires were returned, this represented a response rate of 72.45%, which researcher relied on for data analysis and findings. Determination of a response rate is important as a high survey response rate helps ensure that the survey results are representative of the survey population (Monkey, 2019). Although researchers have not come to an agreement on the appropriate response rate Flynn, Schroeder, Sakakabira, Bate and Flynn, (2010) argue that it is important to reach a response rate that is greater than 50%. Fowler (2013) provides a response rate of between 30 to 90% as a guide and he argues that in survey research, the higher the response rate the less bias the estimates are. Atawodi and Ojeka (2012), study on tax compliance among SMEs in North Central Nigeria, relied on a response of 71.33% while Mwaura (2019), study on determinants of tax compliance among SMEs in Thika relied on response rate of 71% (222).

Table 4. 1: Response Rate

Response	Frequency	Valid Percent
Returned	72	72.45%
Not Returned	27	27.55%
Total	98	100.0

4.3 Pilot Study Results

The study conducted pilot study to test the reliability and validity of the research instrument.

4.3.1 Reliability of the Research Instruments

This study tested for reliability based on the Cronbach's alpha values for each measurement construct and then for the overall items used in the questionnaire.

Table 4. 2: Cronbach Alpha

Construct	Items	Alpha
Compliance Cost	5	0.727
Tax Knowledge	5	0.786
Technology	5	0.780
Tax Compliance	5	0.787
Overall	25	0.770

Table 4.2 showed that alphas of 0.727, 0.786, 0.780 and 0.787 was determined for the following constructs; compliance cost, tax knowledge, technology and tax compliance respectively. Generally, an alpha of 0.770 was determined for all the constructs, which was above 0.7, as recommended by Hair *et al.*, 2010.

4.3.1 Validity of the Research Instruments

Factor analysis was carried out in order to determine the constructs of the factors and even tax compliance. Hair *et al.*, (2010) highlighted that factor analysis is necessary in research to test for construct validity and highlight variability among observed variables and to also check for any correlated variables in order to reduce redundancy in data. Mwiti (2013) suggested that variables with factor loadings greater than 0.5 were the ones that had the highest significance and influence.

Table 4. 3: Validity of the Research Instruments

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.797
Bartlett's Test of Sphericity	Approx. Chi-Square	784.44
	Df	5
	Sig	0.000

KMO measures on study variables had 0.797 which represented great acceptability of the use of factor analysis and sufficient inter-correlations. Bartlett's test of Sphericity is significant since (chi-square=784.44, $p < 0.000$). Bartlett's test checks if the observed correlation matrix diverges significantly from the identity matrix

4.4 Demographic Analysis

In this section the researcher sought to determine the following about the SMEs; registration, ownership, years of operation, turnover of the SMEs and number of employees

4.4.1 Registration of the SMEs

The owners and management of SMEs were asked to indicate whether their SME was a sole proprietorship, partnership and limited company.

Table 4. 4: Registration of SMEs

Business Type	Frequency	Valid Percent
Sole Proprietorship	36	50.7
Partnership	28	39.4
Limited Liability	7	9.9
Total	71	100.0

SMEs registered as sole proprietorship were 50.7% (36) followed by 39.4% (28) which were registered as partnership while 9.9% (7) were registered as limited liability companies. The analysis indicated that SMEs involved in the study were distributed across different business types.

4.4.2 Ownership of the SMEs

The researcher also sought to determine the ownership of SMEs in Voi Town.

Table 4. 5: Ownership of SMEs

Ownership	Frequency	Valid Percent
Owner-Managed	42	59.2
Co-ownership Partnership	13	18.3
Shareholding	7	9.9
Family-Owned	9	12.7
Total	71	100.0

Ownership and management of the SMEs in Voi Sub-County was dominated by owner-managed SMEs representing 59.2% (42). SMEs that were co-owned by the partners represented 18.3% (13) while shareholding agent management of SMEs represented 9.9% (7). Finally, 12.7% (9) of the SMEs were family owned. It was evident that SMEs in Voi Sub-County were distributed across different ownership.

4.4.3 SMEs Years of Operations

The respondents were further asked to indicate the number of years the SME has been in operation.

Table 4. 6: SMEs Years of Operations

SMEs Years of Operations	Frequency	Valid Percent
Less than 1 year	31	43.7
Between 1 to 2 years	29	40.8
Between 2 to 3 years	8	11.3
Above 3 years	3	4.2
Total	71	100.0

Majority of the SMEs had been in operation for less than 1 year with 43.7%(31), followed by 40.8% (29) of the SMEs had been in operation for between 1 to 2 years, followed by 11.3% (8) of the SMEs which had been operation for between 2 to 3 years and finally 4.2% (3) of the SMEs had been in operation for above 3 years. The analysis indicated that majority of the SMEs in Voi Town had been in operation for less than 2 years. This supports the report by KNBS (2017) which reported that approximately 400, 000 SMEs in the country do not celebrate their second birthday.

4.4.4 Turnover of SMEs in Voi Town

The researcher further sought to determine the turnover of SMEs in Voi Town.

Table 4. 7: Turnover of SMEs in Voi Town

Turnover	Frequency	Valid Percent
Below 250,000 Ksh	26	36.6
250,001-500,000 Ksh	16	22.5
500,001 -1,000,000 Ksh	12	16.9
1,000,001 – 5,000,000 Ksh	5	7
5,000,001 – 10,000,000 Ksh	9	12.7
Over 10,000,001 Ksh	3	4.2
Total	71	100.0

The analysis indicated 36.6% (26) of SMEs had a turnover of below 250, 000 Ksh, followed by 22.5% (16) of the SMEs had a turnover of between 250,001 to 500,000 Ksh, followed by 16.9% (12) of the SMEs had a turnover of between 500,001 to 1,000,000 Ksh, followed by 12.7% (9) of the SMEs had a turnover of between 5,000,001 to 10,000,000 Ksh, followed by 7% (5) had a turnover of between 1,000,001 – 5,000,000 Ksh and finally 4.2% (3) of the SMEs had a turnover of over 10,000,001 Ksh. The analysis indicated that majority of the SMEs in Voi Town had a turnover of less than 500, 000 Ksh, this contradicts the report by KAAA (2016), which reported that Small enterprises have between KES 500,000 and 5 million of turnover in Kenya.

4.4.5 Number of Employees in the SME

The research also sought to determine number of employees employed by the SMEs in Voi Town.

Table 4. 8: Number of Employees in the SME

Number of Employees	Frequency	Valid Percent
1-5 employees	23	32.4
6-10 employees	15	21.1
11-20 employees	11	15.5
21-50 employees	6	8.5
51-100 employees	8	11.3
101-150 employees	4	5.6
151-250 employees	4	5.6
Total	71	100.0

From the analysis it was determined that 32.4% (23) of the SMEs had between 1 to 5 employees, followed by 21.1% (15) of the SMEs had between 6 to 10 employees, followed by 15.5% (11) of the SMEs had between 51 to 100 employees, followed by 11.3% (8) of the SMEs had between 21 to 50 employees, followed by 8.5% (6) which had 101 to 150 employees and finally there was a tie between 151 to 250 employees and 101 to 150 employees with both 5.6% (4) of the SMEs . It was evident that majority of the SMEs had less than 10 employees, which also contradicts the report by KAAA (2016), which stipulates that SMEs employ 10-49 people.

4.5 Descriptive Analysis

This section presents the descriptive statistics on compliance cost, tax knowledge, technology and SMEs tax compliance.

4.5.1 Compliance Cost

On the first independent variable the respondents were asked to indicate the extent in which they agree with the various statements on compliance cost. The following scale was used: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral 4 = Agree and 5 = Strongly Agree.

Table 4. 9: Compliance Cost

Opinion Statements	Mean	Std. Deviation
SMEs incurred a lot of expenditure in order to become tax compliant	4.0000	.97333
The SME require experts for book keeping	3.9231	1.17842
Compliance cost is also added to the risks of inspection, penalties and fines	3.9231	1.22226
Tax fraud and tax avoidance among SMEs can be caused by high compliance cost	3.8718	1.23926
SMEs require a lot of time to file their tax returns	3.6154	1.28995
Overall	3.8667	1.18063

Table 4.9 showed that the respondents strongly agreed that SMEs incurred a lot of expenditure in order to become tax compliant with (M=4.000; SD= 0.97333). They agreed that the SME require experts for book keeping with (M=3.9231; SD=1.17842) and they agreed that compliance cost is also added to the risks of inspection, penalties and fines with (M=3.9231; SD=1.22226). They also agreed that tax fraud and tax avoidance among SMEs can be caused by high compliance cost with (M= 3.8718; SD= 1.23926) and they agreed that SMEs require a lot of time to file their tax returns with (M= 3.6154; SD=1.28995). the overall mean of 3.8667 and standard deviation of 1.18063, implied that respondents agreed that compliance cost affects tax compliance among SMEs in Voi Sub-County but there was a strong variation from the mean since standard deviation was greater than 1. This study corroborates the findings of OECD (2014), who established that compliance cost results to SMEs avoiding the paying of taxes as it affects the business.

4.5.2 Tax Knowledge

On the second independent variable the respondents were asked to indicate the extent in which they agree with the various statements on tax knowledge. The following scale was used: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral 4 = Agree and 5 = Strongly Agree.

Table 4. 10: Tax Knowledge

Opinion Statements	Mean Std. Deviation
During the determination taxable income, SMEs are aware of the incomes exclude and include	4.3590 1.03840
SMEs are able to declare actual income received from various sources to KRA	4.2821 .88700
SMEs are able to keep documents and records pertaining to the various transactions	4.1538 1.13644
SMEs are aware of the existing tax laws and developments	4.0769 1.01007
KRA needs to train and make tax awareness on the importance of tax compliance among SMEs	4.0256 1.03840
Overall	4.1795 1.0221

It was determined that the respondents strongly agreed that during the determination taxable income, SMEs were aware of the incomes exclude and include with (M=4.3590; SD=1.03840) and they strongly agreed that SMEs are able to declare actual income received from various sources to KRA with (M=4.2821; SD=0.88700). The respondents further strongly agreed that SMEs were able to keep documents and records pertaining to the various transactions with (M=4.1538; SD=1.13644) and they strongly agreed that SMEs were aware of the existing tax laws and developments with (M=4.0769; SD=1.01007). Finally, they strongly agreed that KRA needs to train and make tax awareness on the importance of tax compliance among SMEs with (M=4.0256; SD=1.03840). Generally, the overall mean of 4.1795 and standard deviation of 1.0221, implied that the respondents

strongly agreed that tax knowledge affects tax compliance among SMEs and there was strong variation from the mean since standard deviation was greater than 1. These findings support that of King'oina (2014), who established that tax compliance is highly dependent on tax knowledge and understanding.

4.5.3 Technology

On the final independent variable, the respondents were further asked to indicate the extent in which they agree with the various statements on technology and tax compliance. The following scale was used: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral 4 = Agree and 5 = Strongly Agree.

Table 4. 11: Technology

Opinion Statements	Mean	Std. Deviation
iTax influence tax compliance among the SMEs	4.12821	1.00471
iTax has enabled SMEs to keep proper books pertaining to expenditure and income of the business	4.0769	0.95655
SMEs can easily obtain PIN through the iTax	4.0769	0.92863
Mobile money has been convenient in tax payment for the SMEs	4.0513	0.99865
Mobile payment has been paramount in ensuring optimal revenue collection from SMEs.	3.64101	1.18070
Overall	3.9949	1.01385

The respondents strongly agreed that iTax influence tax compliance among the SMEs with (M=4.1282; SD=1.00471) and they strongly agreed that iTax has enabled SMEs to keep proper books pertaining to expenditure and income of the business with (M=4.0769; SD=0.95655). They further agreed that SMEs can easily obtain PIN through the iTax with (M=4.0769; SD=0.92863) and they strongly agreed that mobile money has been convenient

in tax payment for the SMEs with (M=4.0513; SD=0.99865). They further agreed that mobile payment has been paramount in ensuring optimal revenue collection from SMEs with (M=3.6410; SD=1.18070). Generally, the overall mean of 3.6410 and standard deviation of 1.18070, implied that respondents strongly agreed technology affects tax compliance among SMEs in Voi and there was a strong variation from the mean since standard deviation was greater than 1. These findings cognates that of Ambali (2019), who established that tax filling is dependent on the use of technology.

4.5.4 Tax Compliance

On the dependent variable, the respondents were asked to indicate the extent in which they agree with the various statements on the tax compliance among SMEs in Voi Sub-County. The following scale was used: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral 4 = Agree and 5 = Strongly Agree.

Table 4. 12: Tax Compliance

Opinion Statements	Mean Std. Deviation
Technology and tax knowledge determine tax registration by the SMEs	3.31181.12268
Tax reporting among SMEs has improved through tax awareness by KRA	3.18281.02094
The SME pays taxes on time	2.98921.13726
The SME regularly files their returns regularly	2.97851.34309
Majority of the SMEs files their taxes voluntarily	2.66671.16408
Overall	3.02581.38506

Table 4.12 showed that the respondents agreed that technology and tax knowledge determine tax registration by the SMEs with (M=3.3118; SD=1.12268) and they agreed that tax reporting among SMEs has improved through tax awareness by KRA with (M=3.1828; SD=1.02094). The respondents were further indifference that the SME pays

taxes on time with (M=2.9892; SD=1.13726) and they were indifferent that the SME regularly files their returns regularly with (M=2.9785; SD=1.34309). They further indifferent that majority of the SMEs files their taxes voluntarily with (M=2.6667; SD=1.16408). Generally, the overall mean of 3.0258 and standard deviation of 1.38506, implied that cost of compliance, tax knowledge and technology affects tax compliance among SMEs in Voi and there was a strong variation from the mean since standard deviation was greater than 1.

4.6 Inferential Statistics

This section presents Pearson correlation, ANOVA, coefficient of determination and regression coefficients.

4.6.1 Correlation Analysis

Pearson correlation analysis was carried out to test the theoretical proposition regarding relationships between independent and dependent among the variables. This analysis was also carried as initial step in statistical modelling to determine the relationship between the variables. The values are interpreted between 0 (no relationship) and 1 (perfect relationship). Also, the relationship is considered weak when $r = \pm 0.1$ to ± 0.29 , while the relationship is considered medium when $r = \pm 0.30$ to ± 0.49 , and when r is ± 0.50 and above, the relationship can be considered strong.

Table 4. 13: Pearson Correlation

		SP	X1	X2	X3
Tax Compliance (TC)	Pearson Correlation	1			
	Sig (2-tailed)				
Compliance Cost (X1)	Pearson Correlation	.304*	1		
	Sig (2-tailed)	.015			
Tax Knowledge (X2)	Pearson Correlation	.267**	.025	1	
	Sig (2-tailed)	.004	.550		
Technology (X3)	Pearson Correlation	.403**	.165	-.163	1
	Sig (2-tailed)	.002	.234	.242	

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

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

The correlation between tax compliance and compliance cost was determined as ($r=0.304$; $p=0.015$), this implied that there exists a positive medium relationship between compliance cost and SMEs performance and the relationship was statistically significant since $p\text{-value} < 0.05$. This contradicts the findings of Evans, *et al.* (2015), who established that record keeping which is an element of cost of compliance does not significantly affect tax compliance. The correlation between tax knowledge and tax compliance was determined as ($r= 0.267$; $p=0.004$), this meant that there existed a weak positive relationship between tax knowledge and tax compliance and the relationship was statistically significant since $p\text{-value} < 0.01$, This supports the findings of Inasius (2019), who established that tax knowledge significantly affects tax compliance among SMEs in Indonesia. Finally, the

correlation between technology and tax compliance was determined as ($r=0.403$; $p=0.002$), which implied there was a moderate positive relationship between technology and tax compliance and the relationship was statistically significant. This cognates with the findings of Kanyinga (2016), who established that taxpayers’ e-Registration and e-Filing had positive and significant effect on tax compliance in SMEs sector.

4.6.2 Coefficient of Determination

To determine the percentage of SMEs performance which can be explained using the independent variables, R^2 was determined

Table 4. 14: Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.698 ^a	.487	.464	.62848

a. Predictors: (Constant), Compliance Cost, Tax Knowledge, Technology

The analysis indicated there a strong positive relationship between taxation and SMEs performance since ($r=0.698$) The analysis further showed an adjusted r^2 of 0.464, which implied that taxation (compliance cost, tax knowledge and technology) can explain only 46.4% of tax compliance among SMEs in Voi Town.

4.6.3 Analysis of Variance

To determine the significance of the factors in determining tax compliance the study used ANOVA analysis.

Table 4. 15: Analysis of Variance

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	11.255	3	3.7517	21.208	.000 ^b
1	Residual	11.849	67	.1769		
	Total	23.104	70			

a. Dependent Variable: Tax Compliance

b. Predictors: (Constant), Compliance Cost, Tax Knowledge, Technology

The ANOVA model showed ($F\{3,67\} = 21.208$; $p=0.000$), the analysis indicated that the model was statistically significant since $p\text{-value} < 0.05$. Hence the constructs of the factors (compliance cost, tax knowledge and technology) incorporated in this study significantly determines tax compliance.

4.6.4 Regression Coefficients

A regression coefficient was carried out in order to explain the nature and relationship between each independent variables and dependent variable.

Table 4. 16: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
	(Constant)	.679	.511		1.327	.190
1	Compliance Cost	.185	.082	.258	.233	.030
	Tax Knowledge	.212	.078	.314	.701	.009
	Technology	.204	.067	.364	3.019	.004

a. Dependent Variable: Tax Compliance; Durbin-Watson= 1.704

Based on the regression coefficient table, the following regression equation was determined:

$$TC = 0.185X_1 + 0.212X_2 + 0.204X_3$$

Where

SP=Tax Compliance

X1=Compliance Cost

X2=Tax Knowledge

X3= Technology

On the relationship between compliance cost and tax compliance, the analysis showed ($\beta = 0.185$; $p = 0.030$), this implied a unit increase in compliance cost would lead to 18.5% significant improvement in tax compliance. Secondly on the relationship between tax knowledge and tax compliance, it was determined that ($\beta = 0.212$; $p = 0.009$), this meant that a unit improvement in tax knowledge would lead to 21.2% significant improvement in SMEs tax compliance. Finally, on the relationship between technology and SMEs tax compliance, it was determined that ($\beta = 0.204$; $p = 0.004$), which implied that a unit improvement in technological reforms would lead to 20.4% increase in tax compliance.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this section of the chapter the study has outlines the summary of the research findings, study recommendations, conclusion and areas for further study that are established based on the main study objective who's aim was to determine the factors that affect tax compliance among SMEs in Voi Sub-County.

5.2 Summary of Findings

5.2.1 Compliance Cost and Tax Compliance among SMEs

The study found out that there was a significant moderate positive relationship between compliance cost and tax compliance among SMEs ($r=0.304$; $p=0.015$). The study also showed that compliance cost significantly contributes to tax compliance ($\beta= 0.185$; $p= 0.030$). it was further determined that SMEs incurred a lot of expenditure in order to become tax compliant and the SME require experts for book keeping. The study also determined that compliance cost was also added to the risks of inspection, penalties and fines and tax fraud and tax avoidance among SMEs can be caused by high compliance cost. On this objective, the study determined that SMEs require a lot of time to file their tax returns.

5.2.2 Tax Knowledge and Tax Compliance among SMEs

On the second objective, the study established that tax knowledge significant weak positive relationship between tax compliance among SMEs ($r= 0.267$; $p=0.004$). The study also determined that tax knowledge significantly affects tax compliance ($\beta=0.212$; $p=0.009$). The study further found out that during the determination taxable income, SMEs are aware of the incomes exclude and include and SMEs were able to declare actual income received from various sources to KRA. The study further determined that SMEs were able to keep documents and records pertaining to the various transactions and SMEs were aware of the existing tax laws and developments. Finally, on this objective, it was determined that KRA needs to train and make tax awareness on the importance of tax compliance among SMEs.

5.2.3 Technology and Tax Compliance among SMEs

On the final objective, the study found out that there was a significant moderate positive between technology and tax compliance among SMEs ($r=0.403$; $p=0.002$). Further, the analysis showed that technology significantly contributes to tax compliance among SMEs ($\beta=0.204$; $p=0.004$). The study found out that iTax influence tax compliance among the SMEs and iTax has enabled SMEs to keep proper books pertaining to expenditure and income of the business. The study also showed that SMEs can easily obtain PIN through the iTax and mobile money has been convenient in tax payment for the SMEs. The study finally found out that mobile payment has been paramount in ensuring optimal revenue collection from SMEs.

5.3 Conclusion

The study concluded that compliance cost, technology and tax knowledge significantly affect tax compliance and the improvement of each factor will lead to tax compliance among SMEs. The study further concluded that these factors partially affects tax compliance hence there are additional factors which can be included to improve tax compliance. The study further concluded that technology and tax knowledge determine tax registration by the SMEs and tax reporting among SMEs has improved through tax awareness by KRA. The study further concluded that SME pays taxes on time and SMEs regularly files their returns regularly. The study finally concluded that majority of the SMEs in Voi Sub- County files their taxes voluntarily.

5.4 Recommendation of the Study

The assessments of the research indicated that compliance cost gave a positive correlation. In a business environment where there is applicable rule of law via the tax penalties, chances of tax compliance increasing are very realistic. Thus, the study would recommend the revenue body in conjunction with other law enforcement agencies like Directorate of Criminal Investigation, Anti counterfeit Agency, Kenya Bureau of Standards (KEBS) to have a concerted effort in having and making sure business owners comply with the law and are involved in legal business transactions. There is also need to encourage a culture of

record keeping and observing time when it comes to making payment and rendering services.

On taxpayer's knowledge and tax compliance the study recommends that tax payers learning ought to be emphasized since tax data, tax learning tends to advance tax compliance than tax organization. Thus, legislature ought to through its organizations instruct the potential taxpayers on taxation laws and controls by coordinate free symposia and courses.

The research established the existence of positive correlation between technology and tax compliance. The study recommends that business adheres to having their transactions backed by modern technology that will help them cut costs; they will also be in a better position to process their transaction very efficient and timely. There is need to automate tax filing as it enhances on revenue collection of which the revenue body must partner with small business owners to see how they can capacitate them in a mutual win scenario.

5.5 Suggestions for Further Studies

The present research was based on assessing the factors of tax compliance among small scale businesses in Voi Sub-County with specific consideration to cost of compliance, tax knowledge and technology. The investigation successfully sampled 71 respondents via the use of questionnaires. However, the study was limited to three determinant variables that might give little information. Voi Sub-County on its own has certain features that are unique to the rest of other towns in Kenya making it not viable to generalize the findings with other areas. Therefore, there is need to undertake other studies related to the same topic with wide considerations to other determinant variables not included in the current study.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION



ISO 9001:2015 CERTIFIED

KRA/KESRA/MSA/106

25th August 2020

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

RE: REQUEST TO COLLECT RESEARCH DATA

This is to certify that the following is bona fide student of the Kenya School of Revenue Administration Mombasa Campus undertaking Post Graduate Diploma in Tax Administration.

Name	Admission Number
GRACE LOISE MAMBORI	HDB336-C016-2370/2016

The above mentioned student is in his final year of study at the school and currently conducting research on the **FACTORS AFFECTING TAX COMPLIANCE OF SMALL TRADERS IN VOI SUB COUNTY TAITATAVETA**. The student is in the process of gathering data and thereafter, compile a report that will strictly be used for academic purposes only. The School would therefore like to seek your permission to allow him/her collect information that relates to his research from your organization.

Thank you in advance for your support and cooperation.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Mumia B.J.", is written over a faint, larger signature.

Mumia B.J.
Associate Head of Research KESRA, Mombasa Campus

APPENDIX II: QUESTIONNAIRE

Dear respondent, you are kindly requested to assist in filling this questionnaire on the factors affecting the tax compliance of small scale traders in Voi sub county, Kenya. Any information that you give will be treated with confidentiality and will not be used for any other purposes other than for this research study. Kindly spare a few minutes of your time to go through the questionnaire and answer the following questions as objectively as possible:

SECTION A: PROFILE OF SMEs

1) Registered as a: Sole Proprietorship () Partnership () Limited Company ()

Other ()

Ownership: Owner-Managed () Partnership () Shareholding ()

Family-owned () Other ()

2) Number of years in operation: less than 1 year () Between 1 to 2 years () Between 2 to 3 years () Above 3 years ()

3) Turnover for the past year (Ksh): Below 250,000 () 250,001-500,000 ()

500,001 -1,000,000 () 1,000,001 – 5,000,000 () 5,000,001 – 10,000,000 ()

Over 10,000,001 ()

4) Number of employees: 1-5 () 6-10 () 11-20 () 21-50 () 51-100 () 101-150 () 151-250 ()

SECTION B: Study Variables

Compliance Cost

Please indicate the extent in which you agree with the following statements on compliance cost. Use the following scale: 1 – Strongly Disagree, 2 – Disagree, 3 – Neutral, 4 – Agree, 5 - Strongly Agree.

Statement	1	2	3	4	5
SMEs incurred a lot of expenditure in order to be tax compliant					
The SMEs require experts for book keeping					
Compliance cost is also added to the risks of inspection, penalties and fines					
Tax fraud and tax avoidance among SMEs can be caused by high compliance cost					
SMEs require a lot of time to file their tax returns					

Tax Knowledge

Please indicate the extent in which you agree with the following statements on tax knowledge. Use the following scale: 1 – Strongly Disagree, 2 – Disagree, 3 – Neutral, 4 – Agree, 5 - Strongly Agree.

Statement	1	2	3	4	5
During the determination taxable income, SMEs are aware of the incomes to exclude and include					
SMEs are able to declare actual income received from various sources to KRA					
SMEs are able to keep documents and records pertaining to the various transactions					
SMEs are aware of the existing tax laws and developments					
KRA needs to train and make tax awareness on the importance of tax compliance among SMEs					

Technology

Please indicate the extent in which you agree with the following statements on technology. Use the following scale: 1 – Strongly Disagree, 2 – Disagree, 3 – Neutral, 4 – Agree, 5 – Strongly Agree.

Statements	1	2	3	4	5
iTax influence tax compliance among the SMEs					
iTax has enabled SMEs to keep proper books pertaining to expenditure and income of the business					
SMEs can easily obtain PIN through the iTax system					
Mobile money has been convenient in tax payment for the SMEs					
Mobile payment has been paramount in ensuring optimal revenue collection from SMEs.					

Tax Compliance

Please indicate the extent in which you agree with the following statements on tax compliance. Use the following scale: 1 – Strongly Disagree, 2 – Disagree, 3 – Neutral, 4 – Agree, 5 – Strongly Agree.

Statements	1	2	3	4	5
Technology and tax knowledge determine tax registration by the SMEs					
Tax reporting among SMEs has improved through tax awareness by KRA					
The SME pays taxes on time					
The SME regularly files their returns regularly					
Majority of the SMEs files their taxes voluntarily					

APPENDIX III: LIST OF SMEs IN VOI AS PER 2020 DATABASE

1.	Mwarongo Corner Shop
2.	Timbila Communications-Silvery Mwadime
3.	Steppur Investment
4.	Gajesh General Stores
5.	Gajesh Enterprises Limited
6.	The Hills View General Shop
7.	Corner Bar-Landi Market
8.	Taita Hills Wildlife Safari Lodge
9.	Chaudry Interprises
10.	Bafagih Supermarket
11.	Mascot Filling Station
12.	Truth Enterprises
13.	Golden Touch Cosmetics
14.	The Hills View General Shop
15.	Eye Witness System
16.	Rumbi Enterprises
17.	Riziki General Stores
18.	Rands Contractions Company
19.	Mwatate Mixed Secondary School
20.	Mwamba Imara
21.	Peerless General Stores-Jesica Zighe
22.	Mambura Vision Self Help Group
23.	Boda Auto -Mwatate -Martin Mwasi Mwambai
24.	Bafagih Supermarket
25.	Joyras Enterprises
26.	Roam Communications-Miriam Njeri Nguyo
27.	Thodcom General Enterprises
28.	Daniel Msagha Mwachala Hardware
29.	Mama Jones Shop/Gift Malasi Mwamburi

30.	Susan Ndela-Top Millenium
31.	Faithmark Beauty Center
32.	Vission Dressmaking
33.	Faykays General Shop
34.	The Pentagons Wines And Spirit
35.	Imam Baqir Nursery School -Mwasafu
36.	Steppur Investment
37.	Neema Kiosk
38.	Mwanedu Grocers - Susan Shali Mwakodi
39.	Mwanedu Kiosk-Shali Susan Mwakodi
40.	Parero Parlour-Regina Richard
41.	Vission Dressmaking
42.	Furaha Butchery -Ndile
43.	Ronge Farmers Cooperative
44.	Mwanedu Enterprises
45.	Uvumilivu Kiosk
46.	Tizal Aquatic Hotel-Calvince Odera
47.	Parero Parlour-Regina Richard
48.	Taifa Kubwa -Kishamba
49.	Andrew Ontiri-Silent Pub
50.	Bafaghi Bakery
51.	G4s Security Service Kenya Ltd
52.	Zicom Limited
53.	Hakikah Bakers
54.	Eliezer School Of Excellence
55.	Voi Engineering Services
56.	Mghendi Sub – Distributors
57.	Jacma Technologies
58.	Pamec Hardware
59.	Victory Printers

60.	Emaka Timbersales And Hardware
61.	Dawash Auto Spares
62.	Mkunda Investment
63.	New Milka Bar
64.	Inspire World Services
65.	Super Collector
66.	Vosa Financial Services Association (Fsa)
67.	Good Shepherd Spares And Service
68.	Ethmu Enterprises
69.	Digital Electronics Voi
70.	Merchar Enterprises
71.	Voi Auto Mart
72.	Powermax Electronics
73.	Reskompics
74.	Baraka Shop
75.	Philipinah Salon
76.	It Works Communication
77.	My Kindy Shop
78.	T.S.S Grains
79.	Kaisari Collections
80.	Downhill Metal Works
81.	Vickchrome Enterprises
82.	Meru Shop
83.	Mwangaza Microenterprises Limited
84.	Mogs General Suppliers
85.	Yahweh Medical Clinic And Laboratory
86.	Victorious Fashions
87.	Frelista Co. Ltd
88.	Nyembo Supplies
89.	Wisdom Academy

90.	Big Daddy Video Show & Games
91.	Bafagih Bakeries Ltd
92.	Tsavo Agro - Hardware Limited
93.	Neema Tailoring
94.	Hunters Bar
95.	Da Star Saloon
96.	Ramco Shop
97.	Blessing Kiosk
98.	Divine Communications
99.	Quik Tech Cyber Café
100.	Jolly Bee Butchery
101.	Plany Limited
102.	Dixis Auto Spares
103.	Tebruja Enterprises Limited
104.	Baraka Cafe
105.	Trendz Salon
106.	Bafagih Hides & Skin
107.	Burrel And Cuctus Distributors
108.	Faith Kiosk
109.	Anguo Feeds
110.	Ashway Farms And Machinery Ltd
111.	Davis And Shirtlift Ltd
112.	Mwagho Co. Ltd
113.	Allyru Enterprise
114.	Bridgeways Ceramics And Hardware
115.	Allyru Enterprise
116.	Omega General Enterprises
117.	Oridhos Pub
118.	New Valley Inn
119.	Iyale Foods Parlour

120.	New Generation Electronics Shop
121.	Mwangaza Microenterprises Limited
122.	Sureshelter Architects
123.	Petca Enterprises
124.	Sifa Fm Stations Limited
125.	Mvoi Ventures
126.	Sajufa Steel Fabricators
127.	Wangurez Salon
128.	High And Tatste Ltd
129.	Cesscolina East Africa Ltd
130.	Base Poa Bar

Source: Voi SMEs database (2020)