

**EFFECT OF TAXPAYER EDUCATION ON VALUE ADDED TAX COMPLIANCE
AMONG SMALL AND MEDIUM ENTERPRISES IN KITENGELA TOWN,KENYA.**

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DEDICATION

I dedicate this research project to my family, friends and colleagues for their ever growing support in my life especially during the process of my studies at Kenya School of Revenue Administration.

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ABBREVIATIONS AND ACRONYMS

CBD	Central Business District
CNBC	Consumer News and Business Channel
ETR	Electronic Tax Registers
GDP	Gross domestic Product
ICT	Information Communication technology
IT	Information Technology
KRA	Kenya Revenue Authority
MSE	Micro and Small enterprises
MSME	Micro and Small and Medium Enterprises
PAYE	Pay As You Earn
PIN	Personal Identification Number
SAS	Self-Assessment Systems
SMEs	Small and Medium enterprises
SPSS	Statistical Package for Social Sciences
TV	Television
USD	United States Dollar
V.A.T	Value Added Tax

DEFINITION OF KEY TERMS

- Taxpayer Education:** This refers to programs aimed at teaching taxpayers about their tax Rights, responsibilities and legal requirements. Also refers to the method of educating the people about the whole process of taxation and why they should pay tax. (ALM 2012)
- Tax Compliance:** This refers to the willingness of a taxpayer to comply with the tax rules of his country, for example by declaring income, filing a return, and paying all the taxes due and in timely manner.(Fields tad and Ranker 2013)
- Tax Information:** The knowledge or facts provided about taxes (
- Value Added Tax** is a consumption tax placed on a product whenever value is added at each stage of the supply chain, from production to the point of sale (Machogu and Amayi 2015)

ABSTRACT

The rationale for imposing taxes in any country is derived from the government responsibilities of providing social and economic goods and services such as public goods, redistribution of income and wealth, social and economic welfare, and economic stability. Improving VAT compliance is one of the most critical issues. It is for this reason that this research was undertaken to identify the effect of taxpayer education on VAT tax compliance among small and medium enterprises in Kitengela Town. Therefore, this study aimed at assessing the effect of taxpayer education on value added tax compliance in Kenya focusing on Kitengela Town. The specific objectives of the study were to determine the effect of stakeholder sensitization, print media and electronic media on VAT compliance among the SMEs in Kitengela Town. The theories used in the study were: Economic Deterrence Theory, Optimal Taxation Theory and prospect theory. Empirical literature involved review of previous literature related to tax compliance and tax payer education. This research problem was best studied by the use of a descriptive survey research approach. The study targeted 38 SMEs in Kitengela Town. Simple random sampling was applied in order to randomly pick the SMEs owners or managers who participated in the study. Data collection was collected using a structured questionnaire. The questionnaires were self-administered by the respondent with the help of two research assistants in order to save time. Pilot study involved 4 SMEs randomly selected in Kitengela Town. Data analysis was used by use of descriptive statistics and inferential statistics using Standard statistical techniques including Pearson correlation coefficient and regression analysis which was employed in the analysis. All the analysis was done using the statistical package for social sciences (SPSS Version 24). The study found that stakeholder sensitization programme, print media education and electronic media education affect VAT compliance to a very great extent. Therefore, study concludes that stakeholder sensitization programme, print media education and electronic media education are statistically significant and they therefore affect VAT compliance. The study revealed that tax education is important in ensuring voluntary tax compliance among SMEs as it will ensure good record keeping, compliance costs will be minimized, good working environment will be strategies for marketing will be enhanced as well as the business person will be able to do their work freely. The study recommends a need to conduct a study on the challenges facing tax payer education and sensitization in Kenya.

CHAPTER ONE.

INTRODUCTION

1.1 Background to the Study

According to Herman et al., (2017), the rationale for imposing taxes in any country is derived from the government responsibilities of providing social and economic goods and services such as public goods, redistribution of income and wealth, social and economic welfare, and economic stability. Tax authorities are tasked with collection of taxation revenues due and needed by the government, under the country's tax laws, without hindering economic activity. In pursuing their mission, tax administrations face a number of challenges, including how to broaden the tax base by continually bringing non-registrants and non-filers into compliance, strengthening organization and management, controlling tax evasion, improving tax collection, and facilitating voluntary compliance. The greatest challenge for any tax administration is achieving and maintaining a high degree of voluntary compliance (Peter and Patricia, 2015).

Improving VAT compliance is one of the most critical issues for domestic revenue mobilization in developing countries for two reasons: Firstly, VAT revenues tend to dwarf all other tax revenue streams, so that even small improvements have relatively large impacts. Secondly, the data generated to observe VAT liability generates a paper-trail that strengthens a revenue authority's ability to enforce tax compliance across all domestic tax types (IGC, 2017).

1.1.1 VAT Tax Compliance

Tax compliance is the degree where taxpaying community fulfils their duties and obligations as per the tax legal provisions (Maxwell, 2003). Tax compliance involves proper computation of taxes and payment as per the tax laws. Mohd et al (2014) defines tax compliance as tax laws fulfillment and declaration of the correct income & expenses and the payment of taxes. Radhakrishanan, (2008) defined value added tax as the value added to the supply by the last seller. VAT was introduced in Kenya in 1990 as a means of increasing the government tax collections by widening the tax base. VAT is imposed by Kenya revenue Authority (KRA). The Value Added Tax is an indirect tax on consumption applicable on the sale of supplies at all levels of production and distribution. VAT registered taxpayers acts as agents in collecting and remitting collected VAT to the government. The VAT paid on inputs in turn is claimed as credit when registered taxpayers declare output VAT on their sales (VAT Act 2013 Sec 17). VAT contributes about 23% of the total tax revenue collection by the government (KNBS 2014).

Tax evasion and tax avoidance hampers revenue collection which leads to inefficiency in government operations. Tax evasion refers to the illegitimate intentional actions by taxpayers taken in order to reduce their tax liability (Alm, 2012). Tax evasion is achieved through criminal acts of omission e.g. failure to register for VAT and acts of commission e.g. under declaration of sales, overstating expenses, claiming of personal expenses as if they are business expenses and misclassifying supplies to lower rates of tax. Also a taxpayer can reduce his VAT liability by abusing the credit and refund mechanism. Tax reduction is the legal reduction of tax liabilities by employing tactics like splitting income and postponing payment of taxes (Martinez, 2011). Tax

avoidance makes full advantage of loopholes in the taxation. Even though tax avoidance is anti-social and not patriotic, it remains legal unless laws are put in place to prohibit it.

1.1.2 Taxpayer Education

Taxpayer education is the tool to enable the taxpayer to understand the tax laws, making easy for them to comply with the obligations such as accurate preparations of returns, timely submission of the returns, and payment of taxes. It is a tool to enable taxpayers to comply with the self-assessment system (Onditi, 2013).

According to Ojo (2018) where the correct attitude has been absorbed the very next step should be that of educating the citizens. The education would be effective when they have noticed in their position in terms of the social amenities that are basic to their existence. Most of the taxpayers can then be expected to react positively towards tax drives and a reduction in evasion. Ogundele (2014) asserts that to comply with tax laws, taxpayers need to have adequate tax knowledge.

The taxpayer education program is one of the strategies of improving service delivery to the tax payers. Improving service delivery is critical to enhance voluntary tax compliance. Lack of the voluntary tax compliance will compel the revenue authorities to use costly and coercive methods for tax enforcement (Fields tad and Ranker, 2013). It is a tool designed to enable taxpayers to understand the tax laws and procedures. It involves training of the special units within the revenue departments, for providing education, counseling and support to the taxpayers, through different media which include newspapers, televisions, radio programs, websites, seminars, and front desk help to disseminate key information to the taxpayers (Otieno, 2013).

In Kenya, the Kenya Revenue Authority uses taxpayer education programs aiming at creating awareness to the tax matters and increases the level of voluntary tax compliance. Various strategies have been adopted. Such as Seminars, Workshop, tax – clinic, live radio talk show, tax literature and the KRA website. These strategies has gradually change the taxpayer attitude, reducing the compliance cost, and minimize the cost of tax administration (Kiwanuka, 2014).

1.1.3 SMEs in Kitengela Town

In Kenya, taxpayers are categorized as small, medium or large depending on their business turnover or levels of income. Irrespective of one's category, taxpayers in Kenya are required to comply with VAT, PAYE, Income Tax, Withholding Taxes and Customs duties in equal measure. Small and Medium enterprises (SMEs) are engines of growth, vital to most economies. Micro businesses and SMEs account for 95% of firms in most countries. In Kenya SMEs represent a vital part of the economy, being the source of various economic contributions through the generation of income via exporting, providing new job opportunities, stimulating competition, engine for employment, contribution to GDP, aid industrial development, satisfy local demand for services and introducing innovation and support to large firms with inputs and services (ROK, 2003b). In 2014, 80% of jobs created were dominated by SMEs. The term micro and small enterprises (MSEs) or micro, small and medium enterprises (MSMEs), is used to refer to SMEs in Kenya (Gituru, 2017). Under the Micro and Small Enterprise Act of 2012, SME's have been defined by the act as those employing between ten and fifty employees with yearly turnover of between 500,000 and 5 million Kenya shillings. Generally, this sector comprises of manufacturing and trade activities which affect the general economy of the country. SMEs' close

proximity to their customers enables them to acquire knowledge in a more direct and faster flow compared to larger firms.

SMEs have been selected for this study given that they are central to the fiscal policy of the Government of Kenya as they offer employment opportunities to millions of Kenyans and also contribute to the national income through payment of taxes (Murigu, 2017). According to the Ministry Industrialization and Enterprises Development (formerly Ministry of Trade), Kenya has about 1.6 million registered SMEs constituting about 96 per cent of all business enterprises in the country. KRA's records indicate that there are only 1,500 recognized medium taxpayers out of the registered SMEs. Currently, it is estimated that the contribution to the GDP by this sector stands at over 45% in addition to contributing 80% of the jobs (CNBC Africa, 2015).

Tax Education to the SMEs becomes necessary when the objective of raising tax revenue, at the changing environment; particularly from the official tax assessment is considered (Munyu, 2014). At the same time, achieving tax compliance and improving revenue generation is not an easy task. However, this problem can be minimized through tax education (Kimungu and Kileva, 2007). Some observed evidence on the ground shows that there have been hostilities between the taxpayers and tax collectors on issues relating to tax compliance. For example, tax evasion cases reported in Kenya's local newspaper (Daily Nation, 2006) showed an outward resistance from taxpayers, for instance, the recent protest by taxpayers over implementation of Electronic Tax Registers (ETR). Hostility towards tax compliance date back to the history of taxation, taxes are considered a problem by everyone. Not surprising, taxation problems date back to the earliest recorded history (Machogu and Amayi, 2013).

Kenya Revenue Authority has given special attention on the SMEs by simplification of the tax laws procedures, formation of associations, annuals taxpayers appreciation day (Taxpayers month), and integrity enhancement as among the strategies for tax compliance (Kimmingu and Kileva, 2007). This is because SMEs comprises of diverse population in which many people fall under the informal (jua kali) sector where tax compliance is a real issue that needs to be addressed by the revenue agencies. The non-compliance may be unintentional, where the taxpayer is not aware of his/her tax obligations or fails to fulfill his/her tax obligations due to ignorance of tax laws and procedures or may be intentional due to the compliance attitudes. It is expected that, tax education will assist taxpayers to understand tax laws and procedures as well as creating positive tax compliance attitude (Christina, Deborah and Gray, 2013).

Taxpayer education will provide necessary tax knowledge to the SMEs which would enable them to comply with the tax matter and change the perceptions and attitudes towards tax compliance by creating more positive attitudes. It is for this reason that this study sought to examine the effect of taxpayer education on value added tax compliance among small and medium enterprises in Kenya.

1.2 Statement of the Problem

Tax compliance is a major problem for many tax authorities and it is not an easy task to persuade taxpayers to comply with tax requirement even though 'tax laws are not always precise' (James and Alley, 2004) Although V.A.T is an important contributor to total government tax revenues accounting for over 30% of the revenues, the complexity its implementation requires the cooperation of the tax-payers making taxpayer education very paramount. Odusola (2006) posits

that revenue realized from V.A.T is low because of the low level of literacy, poor relationship between taxpayers and income tax authorities, and the inadequate number, or complete absence, of trained and qualified accountants on the staff of the tax authorities. Kenya suffers from revenue loss due to the problems of tax non-compliance and tax evasion. On average, about 30 per cent of all taxpayers fail to submit their V.A.T returns, and many each year face prosecution for failing to file complete returns (Onditi, 2013).

The SME sector, basically deals with goods and services that attract Value Added Tax at a rate of 16% hence most of them are eligible for VAT registration. SMEs face numerous challenges in complying with the VAT laws. Some of the most notable challenges include; lack of proper purchase invoices for VAT in put claims, delayed payment receipts for timely VAT payments, irregular business transactions, shortage of skilled manpower and record keeping, return submission and paying VAT that requires honesty and greater degree of accuracy. These challenges can be overcome through frequent education of the tax payer hence raising the tax compliance levels.

In 2008, tax evasion led to a decrease in tax base that had been predicted to be at Ksh. 79billion (Kenya Parliamentary Budget Office, 2010). KRA Annual Tax report (2013) noted that there was loss of tax amounting to Ksh. 108 billion in the financial year 2012 attributed to SMEs and the informal sector because a big percentage of the informal sector often show low tax compliance since they do not remit their taxes leading to loss of government revenue. Therefore, this study sought to find out the effect of taxpayer education on VAT tax compliance among

SMEs in Kitengela town as well as come up with recommendations to improve tax compliance and reduce tax evasion.

1.3 Objectives of the Study

The general objective of this study is to find out the effect of taxpayer education on VAT tax compliance among SMEs in Kitengela town. The study seeks to:

- i. Investigate the effects of stakeholder sensitization programmes on the VAT compliance among Kitengela Town SMEs
- ii. Find out the effects of print media taxpayer education on the VAT compliance among Kitengela Town SMEs
- iii. Examine the effects of electronic media taxpayer education on the VAT compliance among Kitengela Town SMEs

1.4 Research Questions

- i. What are the effects of stakeholder sensitization programmes on the VAT compliance among Kitengela Town SMEs
- ii. How does print media taxpayer education affect VAT compliance among Kitengela Town SMEs
- iii. To what extent does electronic media taxpayer education affect the VAT compliance among Kitengela Town SMEs

1.5 Significance of the Study

Information obtained will be used by the government as a foundation for formulation of policies that involves informal sectors and SMEs as well as coming up with strategies that help enhance an environment for compliance of tax. KRA may also use the findings to come up and examine the challenges affecting tax compliance and thereafter come up with proper and sufficient mechanisms that can be adopted to ensure success of the tax education. Researchers and academicians may also use the findings as a basis of knowledge regarding tax compliance and taxpayer education.

1.6 Scope of the Study

The study focus was SMEs in Kitengela Town due to proximity as well as saving on time, thus making it easy to draw conclusions. The study will focus on three variables: comprehensive stakeholder sensitization programmes, media tax payer education, and staff training. The study will take duration of 3 months.

1.7 Limitations of the Study

One of the limitations to the study is reluctance of respondents to disclose information concerning their business. This is due to shortage of knowledge to respondents as they intend to keep business secrecy. This will be overcome by ingraining trust in them through confirmation that the data is only for scholastic purposes. Some of data may not be easy to access from the source directly because some of respondents were not ready to provide full information concerning the organization.

This will be overcome by looking for endorsement from KRA administration subsequent to persuading them regarding the significance of this investigation to them.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature on taxpayer education and voluntary tax compliance. It looks at theoretical review, conceptual framework, and empirical review, critique of the existing literature relevant to the study, summary and research gaps.

2.2 Theoretical Review

2.2.1 Economic Deterrence Theory

Economic deterrence theory was developed by Allingham and Sandom (1972) and it incorporates the rational taxpayer concept as they try to evade payment of taxes for a long time since the payoff is greater and better than the tax cost to be paid after they are caught. According to this model the declared income depends upon income or revenue, audit rate and tax rate. According to Alm, Jackson and McKee (1992), what the government takes from the tax payer, the individual perception of benefits of taxes affects or determines tax compliance decision or evasion.

The economic deterrence model has undergone a number of alterations and extensions, and still enjoys prominence in most studies on taxpayer compliance. On the other hand, criticism has been leveled on it for not being rational in explaining taxpayer compliance, since it predicts a general substantial noncompliance beyond what is practical in real sense (Yeung, 2004). Snyder (2012) agree that although tax authorities periodically carry out audits and penalties, tax evasion

has remained, and continuously posed significant threats to countries' economies, through loss of revenue. Besides, it has also been proven through research that there are people who never evade taxes, (Thakur, 2013).

Despite its limitations, the deterrence model has come under criticism for its failure to put into consideration behavioral factors such as attitudes, perceptions, and moral judgments (White, 2009); for neglecting the presence of codes of conducts, such as moral and ethical constraints that have potentials to prevent people from cheating in their taxes; and for neglecting the relevance that tax compliance takes place in a social context (Devos, 2013). The aggregation of the above criticisms have thus led to the incorporation of diverse perspectives/fields into the study of tax compliance behavior, and subsequently, development of broad-based factors that affect taxpayers' (non)compliance behavior.

2.2.2 Optimal Taxation Theory

Mayshar (1990) notes that this theory is used to show how best a tax can be used to reduce distortion and inefficiency when one tries to increase the set taxes through illegal methods. A neutral tax is a theoretical tax, which avoids distortion and inefficiency completely (Ramsey, 1997). Other things being equal, if a taxpayer must choose between two mutually exclusive economic projects (investments) that face the same pre-tax risk and returns, the one with the lower tax or with a tax break would be chosen by the rational actor. With that insight, economists argue that generally taxes distort behavior (Slemrod and Yitzhaki, 1996).

The theory of optimal taxation is normative, essentially assuming that policy is made by a benevolent dictator who respects individual preferences as well as some 'social' preference for equality. One can choose to dismiss this body of theory by pointing out that actual policy makers typically represent specific interest groups and that actual policies tend to reflect some compromise between conflicting interests rather than the maximization of a Bergson-Samuelson social welfare function (Auerbach, 1996) .

Optimal Taxation Theory is a welfarist approach, meaning that it considers distributive justice to be solely some function of individual utility. Optimal tax theory recognizes the indeterminacy of comparing utility across different human beings. The foundational piece in the optimal tax literature relating to distributive justice is Mirrlees' (1991) paper. Mirrlees (1991) assumes that individuals differ only on one exogenous characteristic, ability, which determines their utility and wage rate. V.A.T compliance adopts a uniform computational method which proportionately apply to all SMEs; being about equality.

2.2.3 Prospect Theory

The prospect theory was developed in 1979, by two German psychologists, Konheman and Amos Tversky. According to these scholars, the rational choice will not only base on the expected outcome. Prospect theory is formed on the basis of the assumption that the decisions making under risk can be viewed as choice, between prospects, and gambles (Monyo, 2013).

The application of the theory to the tax compliance decisions is that the taxpayer will choose the no-compliance decisions if and only if he/she is certain that he/she will not be detected. The decision maker would not like to incur losses, which may result from the non-compliance, for example fines, penalties and sanctions. The taxpayer will make calculated risk, basing on the

reference point, which is the current situation. This explains why there be may low level of tax evasion despite a low level of audits conducted, contrary to what is suggested by deterrence theory and the classical expected utility theory (Dhimi and Nowaih, 2005). The theory suggests that, tax compliance decision is affected by how the decision maker, makes decisions. Individual decisions are affected by the moral ethics of an individual, education, age, gender, and his/her perceptions (Reckers, Sanders and Roark, 1994).

This study will adopt the prospect theory to analyze the tax behaviours of SMEs sector in Kitengela Town. The deterrence measures as suggested by the Economic deterrence model would be difficult to apply efficiently to the most of the SMEs as they operate in the cash economy and the lack of the third party data for comparison purposes. The prospect theory considered the behavioral factors, for example gender, age, education and morality affect the decisions to pay taxes and comply. Therefore, this study believed that the behavior of an individual and perceptions can be influenced by the level of knowledge.

2.3 Empirical Review

Kasipillai, Norhani and Noor Afza (2003) conducted a study among undergraduate students of University of Malaysia to determine whether taxpayer education has a significant influence on voluntary tax compliance. The study found that there exists a positive and significant relationship between taxpayer education and voluntary tax compliance. A study conducted by Rasheed and Noor (2014) evaluated the relationship between knowledge in tax and compliance of taxes among Malaysian taxpayers. The study found that there exists a significant relationship between knowledge in taxes levels and increased tax compliance levels.

Normala (2007) examined the impact of taxpayer education in enhancing voluntary tax compliance among Malaysian taxpayers. The study found that there was a significant and positive influence of taxpayer education and voluntary tax compliance among Malaysia taxpayers. This is because each tax payer has their own tax liability whereby they pay their taxes to the authorities and the revenue authorities later conduct audit to determine if the declarations in tax payments and returns are correct or not. Adesina and Obazee investigated taxation information, fines and level of compliance among SMEs in Nigeria. Examination was led utilizing survey design and information were gathered through survey and broke down utilizing least square technique. Outcomes uncovered that tax learning had positively huge effect on tax compliance while taxation penalties had inconsequential positively effect on assess compliance. Prescription that legislature ought to energize taxpayers information about assessment laws and standards in this way making mindfulness for the common advantages of the administration and the taxpayers.

Machogu and Amayi (2013) examined the impact of taxpayer education on voluntary tax compliance among Mwanza City SMEs. The study found that understanding the tax laws and regulations have helped SMEs to understand regarding taxes, while other respondents indicated that the taxpayer education has helped them in gaining awareness of their duties and rights. It is consequently suggested tax collection ought to be instructed at all training levels that is primary schools with accentuation on advancing deliberate tax compliance.

Udoba (2017) found a significant relationship between taxpayers' education and tax fees failing under Mwanza city council were able to get tax education. This implies that 19.5% of

respondents were in one way or another failed to get tax education. Gitaru (2017) found that sensitization of stakeholders; print media and electronic media tax payer education are positively significant to taxpayer education. Ndirangu (2014) examined the influence of taxpayer education on VAT compliance levels among motor vehicle spare parts dealers in Central Business District in Nairobi and found that knowledge in tax is significantly related to compliance. Tax systems should also enhance surveillance and monitoring to ensure that all the taxpayers are brought into the tax net.

A study by Aondo (2018) was to examine the factors of tax compliance among Naivasha Sub-County SMEs. Research study adopted descriptive research design. The study found out that taxpayer's knowledge, tax rate, filling procedures and accountability are among tax compliance factors among SMEs. Therefore, the research concluded that compliance of tax may be impacted by education of taxpayers whereby they are trained in their social responsibility for paying taxes and taxpayer's intention would be to comply. There are more gains in assisting compliant taxpayers in meeting their fiscal obligation instead of spending more resources on a few non compliers. SMEs are able to understand tax obligation where there is tax benefits and tax benefits that are received in real time. The study recommended that tax payers learning ought to be emphasized since tax data, tax learning tends to advance tax compliance.

2.4 Conceptual Framework

Conceptual framework is a written or visual presentation that “explains either graphically, or in narrative form, the main things to be studied, the key factors, concepts or variables and the presumed relationship among them (Miles et al, 1999).

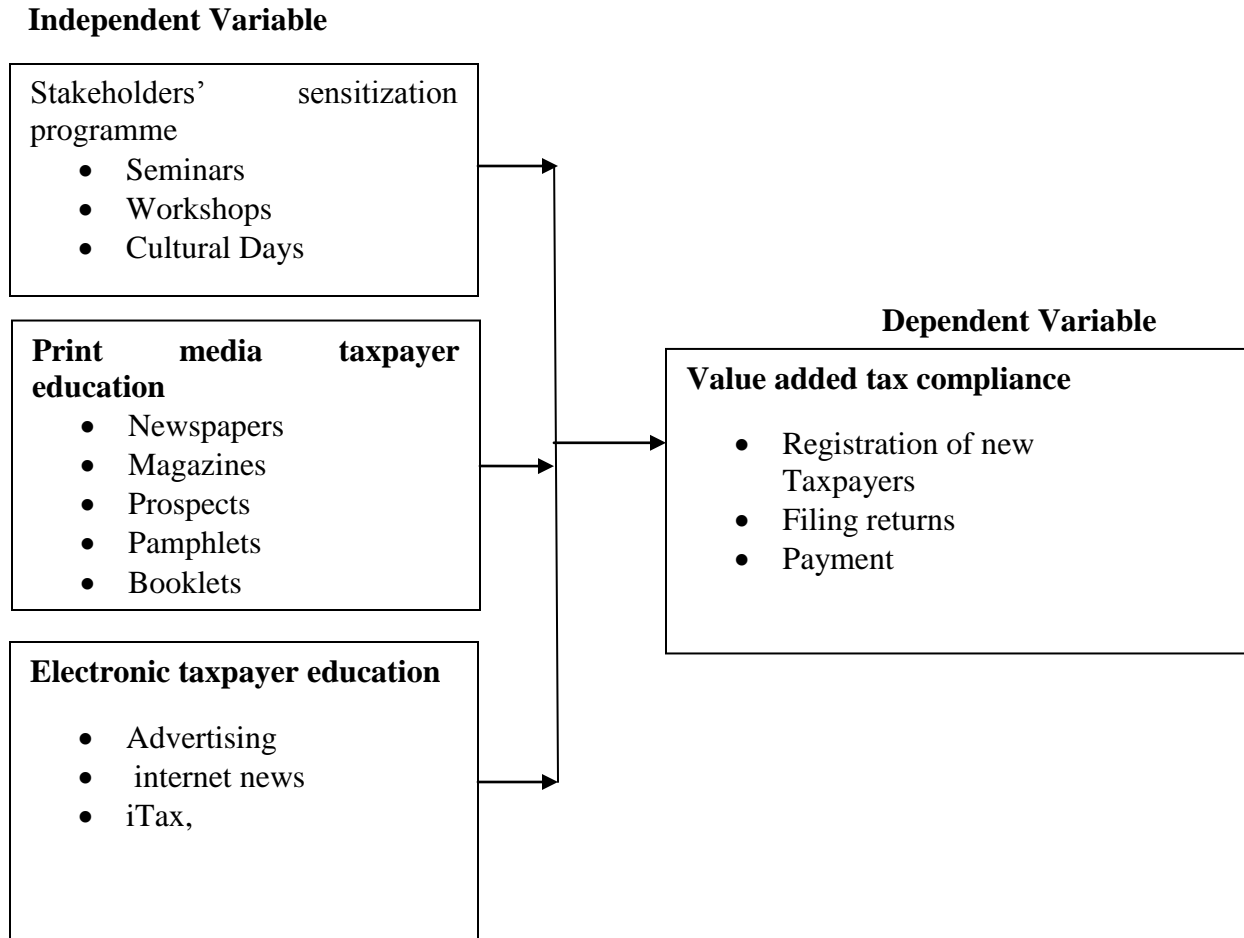


Figure 2.1: Conceptual Framework

Source: Study (2019)

2.4.1 Stakeholder sensitization programmes and VAT compliance

Numerous taxpayer sensitisation activities have been organised by KRA for business communities, interest groups, educational institutions etc. This is usually done to sensitize tax payers on tax compliance. Most notable was the ‘Taxpayers’ Week’, TV/Radio shows and for the first time KRA diversified into bill board campaigns for Tax Amnesty 2004 (KRA Revenue Administration Report, 2005). This can be done through understanding the needs of the

stakeholders through regular engagements with them, since SMEs are part of the stakeholders, and getting their opinions regarding different issues from such engagements to inform the Authority's continued transformation and risk mitigations efforts across all levels of the Authority, enhance taxpayers' understanding of the tax authority.

The influence of sensitization on compliance behaviours has been assessed in various researches. Knowledge as one of the factors in compliance is related to the taxpayers' ability to understand taxation laws, and their willingness to comply. The aspect of knowledge that relates to compliance is the general understanding about taxation regulations and information pertaining to the opportunity to evade tax (Kasipillai, Norhani, and Noor, 2003).

Sensitization programme is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government (Mohd, 2010). Attitude towards tax compliance can be improved through the enhancement of taxation knowledge. When a taxpayer has a positive attitude towards tax, this will reduce his or her inclination to evade tax payment. The influence of knowledge on compliance behaviours has been assessed in various researches. Knowledge as one of the factors in compliance is related to the taxpayers' ability to understand taxation laws, and their willingness to comply. The aspect of knowledge that relates to compliance is the general understanding about taxation regulations and information pertaining to the opportunity to evade tax (Kasipillai, Norhani, and Noor, 2003).

2.4.2 Print media and VAT compliance

This includes use of radio, television and newspaper plays a vital role in print media encouraging tax compliance among organizations. A study by Udoba (2017) recommended that tax education should be provided at all levels of education from Primary school to University level in Tanzania by introducing a special subject dealing with tax policies, tax and fees laws and to reduce the number of taxes, Also to provide education through the recommended local media from the study which were: Print media, local Television (TV) and Radio.

Angus et.al, (2016) paper sought to review research about Kenya's individual compliance in tax and found that media campaigns in TV, use of magazines and journals, newspapers and business prospects encourage taxpayers to pay taxes, file their tax returns, and thus increase their tax morale as well as increasing awareness.

2.4.3 Electronic taxpayer education and VAT compliance

The innovations in technology have helped a great deal in tax collection. The advent of new instruments to help businesses work more efficiently affects the way taxes and revenues are collected. Information Technology (IT) changes at a rapid pace that the existing fiscal systems become obsolete in a short period of time. The necessity to integrate former existing structures is becoming more demanding since new applications need to be created to assist the dynamics of financial processes (Adams, 2012). In addition, the quantity of processing data augments each year, which requires a scalable infrastructure to keep the fiscal processes working (Maxwell, 2005).

The computerization of all the processes steps plays an important role in minimizing the errors, standardization of the operational procedures and reducing costs. It may assure that the practice is in line with current legislation. Furthermore, a computerized tax system may reduce the operational costs of revenue collections. With a reduction in expenditures, a probable residual budget may be invested in means to enhance the citizens' welfare prioritizing the society needs (Fisman & Gaht, 2012). Lai *et al.*, (2010) examined the ICT skills that people need to join a firm dealing with taxes and found that incorporating skills in ICT and soft wares related to tax as well as online tax skills are important in a tax company. Furthermore, the study found that ICT knowledge and electronic systems of tax have a positive and significant effect on compliance.

A study by Christina, Deborah and Gray (2013) determined the economic and behavioral factors having an effect on compliance of tax. The study found that ignorance in tax laws and not having enough knowledge on ICT affect tax compliance. According to SAS (2007), a holistic view of taxpayers through use of electronic means would facilitate compliance by use of dynamic comprehensive approaches. Study supports that this approach would enable an organization gain a single view of the taxpayer; increase auditor efficiency; enhance policy analysis ability and improve performance management.

2.5 Critique of the existing literature relevant to the study

The above literature has clearly established tax compliancy has direct effect on the domestic revenue collection of a country. This can help the country to realize its goals and objectives as set out in the budget and that's why the growing concern of tax administrations throughout the world is on how to simplify and encourage voluntary tax compliance. However, the literature

fails to establish the effect of taxpayers' education on V.A.T compliance. This creates the need for the tax agents to improve their image by building trust and public confidence. From all the studies reviewed above, it's clear that past research has tried to study the area but from a shallow perspective and no one has actually done this study locally, thus the study tried to seek solutions to the problem statement on three main independent variables namely stakeholder sensitization programmes, print media and electronic media taxpayer education.

2.6 Summary of literature Reviewed

This chapter focused on the theories related to the study. It looked at economic deterrence theory and optimal taxation theory. It also looked at the conceptual framework and reviewed literature related to the dependent (VAT compliance) and independent variable namely stakeholder sensitization programmes, print media and electronic media taxpayer education. The chapter further reviewed empirical literature on taxpayer education and compliance. The study established that higher levels of tax compliance lead to increased revenue collection. In this particular study, increased VAT compliance rate will significantly help the government collect more taxes thus widening their base of tax and this will help the country to realize its goals and objectives. Regular and effective taxpayer education will encourage voluntary compliance and lead to increased revenue collections. Furthermore, it focused on critique of the existing literature relevant to the study and research gaps.

2.7 Research Gaps

Despite having numerous studies related to tax compliance for developed countries, there is however scarcity of study on VAT compliance for developing countries especially for Kenya.

Some related studies, in particular Aondo (2018); Udoba (2017); and Rasshid and Noor (2014); Kasipillai (2003); Normala (2007); Machogu and Amayi (2013); Gitaru (2017); researching on the relationship between tax education and compliance, no study researched specifically on taxpayer education effects on VAT compliance while focusing on three main variables namely stakeholder sensitization programmes, print media and electronic media taxpayer education. Gaps were also identified in the area of study, study design, respondents and the variables involved. Therefore, this study intended to bridge this knowledge gaps that were found to exist.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter looks at the research methodology used in the study including research design, target population, sample, data collection, and research procedures and data analysis.

3.2 Research Design

A research design is a systematic arrangement of measures, factors and tools to be applied in collection and analysis of the data obtained in order to accomplish its goals in an efficient and effective manner (Mugenda and Mugenda, 2011). This research problem was best studied by descriptive research design method. A descriptive research design is used to describe behavior or characteristic of a population being studied (Cooper & Schindler, 2011). A descriptive research describes and explains the events as they are in the real life context in which they occurred. It's more than collection of data and it involves measures, classification, analysis and interpretation (Kothari 2012).

3.3 Target Population

Population refers to all people or items with the similar characteristics that one wishes to study (Zikmund *et al.*, 2011). Population is a set of people or items with similar characteristics that a researcher intends to study and to draw statistical inferences or conclusions (Gall *et al.*, 2016). Target population is the totality of cases that conform to some designated specifications, which

could be people, events or things of interest to the researcher (Sekaran, 2008). The study targeted SMEs in Kitengela town.

3.4 Sampling Frame

According to Thompson (2012), a sampling frame comprises of a list of people from which the researcher uses to obtain information about the study. The sampling frame defines a set of elements from which a researcher can select a sample of the target population. Because a researcher rarely has direct access to the entire population of interest in social science research, a researcher must rely upon a sampling frame. For this study, the Kenya National Chamber of Commerce and Industry was the sampling frame.

3.5 Sample and Sampling Technique

Mugenda and Mugenda (2003) noted that sampling involves the researcher securing a representative group that will enable him/her to gain information about the target respondents. Sampling was determined using a statistical calculation as noted by Saunders (2012).

$$n = (ZS/E)^2$$

Where:

n is the sample size we wish to determine.

Z is the confidence level, 95% is generally acceptable.

S² is the standard deviation, usually from previous studies. If not known, 0.5 is a good estimator.

E is the error limit we are willing to accept, an error limits within 5% is generally acceptable in research.

Therefore,

$$n = (0.95 * 0.5) / (0.05)^2 = 190.$$

A sample size of 190 was used. The study purposively used 20% of the sample as a representative of the whole implying 38 SMEs in Kitengela town. This is in line with Mugenda & Mugenda (2003) and Borg & Gall (2003) who state that a sample size of between 10% and 30% is a good representation for the population targeted, therefore the 20% used was sufficient. Simple random sampling was used in order to randomly pick the SMEs owners or managers who participated in the study. This study randomly selected the respondents from their work stations. Random sampling made it possible to cover the entire SMEs in Kitengela Town.

3.6 Data Collection Instruments

In data collection, the researcher should describe the major method for collecting data from the subjects (Maxwell, 2012). In this study the main data collection instruments were questionnaires. The questionnaires used the five Likert scale (from strongly agree to strongly disagree) and were self-administered to the respondents. An introduction letter was used to introduce the researcher and explain the importance of the study. Respondents were assured of strict confidentiality of the information they shared with the researcher and that the information is strictly for research purposes. This was done in order to enhance the response rate.

3.7 Data Collection Procedures

The researcher obtained a letter from KESRA to enable them collect data from the sampled population and thereafter issued an introduction letter for permission to collect the information. The researcher administered the questionnaires and gave the respondents time to fill them before

collecting them. For the respondents who were not in, the researcher used drop and pick methods.

3.8 Pilot Testing

A pilot study is a preliminary mock study that precedes the actual study. This mock study is important because it enables the researcher to gauge if the instruments of data collection will work properly as expected. Mugenda and Mugenda (2003), cite that a relatively small sample of 10% of respondents is enough for a pilot study. Consequently, 4 respondents were selected to be used for the pilot study. The pilot study is crucial since it helped the researcher to rephrase the questions that were not understood and also pretest the questionnaire to rate if it collected the desired results.

3.8.1 Validity of the Research Instrument

Content validity was used in this study to measure the level whereby a measuring instrument provides adequate coverage of the topic under study. In order to establish content validity and make adjustments and/or additions to the research instruments, consultations and discussions with the supervisor was done.

3.8.2 Reliability of the Research Instrument

The study employed self-administration approach of data collection and monitored the process to ensure that people outside the sample did not fill the questionnaires. In this study, reliability was measured using the internal consistency approach. Internal consistency will be done using the Cronbach's Alpha recommended by Cohen, Manion and Morrison (2007) for its ability to give average split-half correlation for all possible ways of dividing the test into two parts.

Computation of Cronbach's Alpha was done using SPSS for windows version 20.0 programme. Correlation coefficient varies on a scale of 0.00 (indicating total unreliability) and 1.00 (indicating perfect reliability). 0.8-0.9 indicates high reliability, 0.6-0.8 indicates acceptable reliability value while below 0.5 is unacceptable (Wambugu et al., 2015). The questionnaires were accepted at reliability indices of 0.91 and above

3.9 Data Analysis

Once the questionnaires will be collected, they were screened, coded and entered into SPSS data analysis. Appropriate descriptive statistics such as Frequencies, Central tendencies (mean), Measures of dispersion (Standard deviation and variance) and linear regression were used in analysis. The analyzed data was presented in form of tables, charts, and graphs for ease of understanding and interpretation. The tables provided summarized results of the information obtained from the questionnaires. The results will then be summarized and a conclusion and recommendations derived.

Multiple regression analysis will be used to check whether there exists a significant relationship between the dependent and independent variables.

$$Y = \beta + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Y=Value Added Tax Compliance

X₁= Stakeholder sensitization programmes

X₂ = Print media taxpayer education

X₃ = Electronic media taxpayer education

$\beta_1, \beta_2, \beta_3,$ = Regression Coefficients

CHAPTER FOUR.

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter focuses on analysis, presentation and interpretation of findings. This chapter presents responses from all SMEs in Kitengela Town regarding an investigation on the effect of taxpayer education on VAT compliance in Kenya.

4.2 The Study Response Rate

Out of 38 questionnaires which had been administered to the interviewees, 33 of them were returned for analysis. This translates to 86.8 percent return by the respondents and this means that the response rate was very high as shown in Table 4.1:

Table 4.1: Distribution of the Respondents by Responses Rate

Response Rate	Frequency (F)	Percentage (%)
Returned	33	86.8
Not Returned	5	13.2
Issued	38	100.0

4.3 Demographic Characteristics of the Respondents

The respondents in this section of the study were all SMEs in Kitengela Town who were of different categories. The categories were characterized by gender, age, education level, nature of business, income level of the SMEs, if the SMEs have a KRA PIN and whether the SMEs have filed their tax returns.

The study sought to find out the gender of the respondents. The findings are illustrated in figure 4.1.

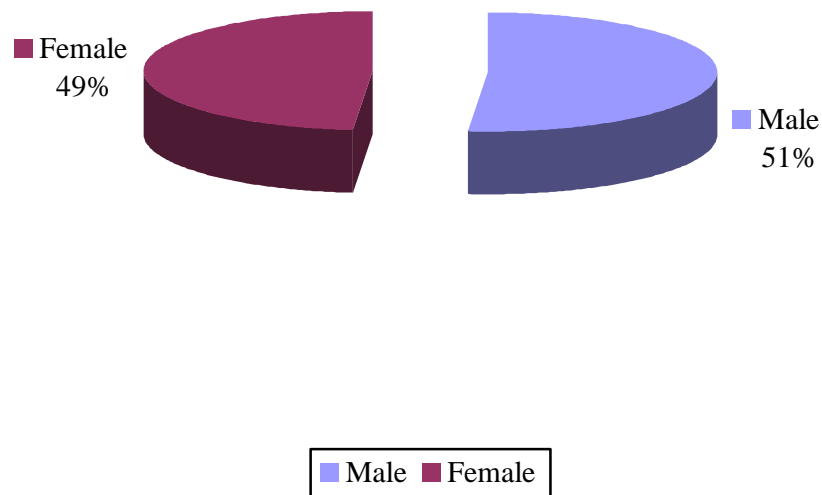


Figure 4.1: Distribution of respondents by Gender

According to the data shown in Figure 4.1, out of 38 SMEs who participated in the study, (51.0%) the majority were males while 49.0% were female. The findings could be an indication that most of the SMEs are male dominated.

The study sought to find out the age of the respondents. The findings are shown in Table 4.2 below.

Table 4.2: Distribution of the SMEs by Age

Age	Frequency (F)	Percentage (%)
20-30 years	7	21.2
30-40 years	15	45.5
40-50 years	9	27.3
50 and above years	2	6.1
Total	33	100.0

The findings reveal that majority of the respondents (45.5%) fell under the age bracket of 30-40 years, 40-50 years (27.3%), 20-30 years (21.2%) and 50 years and above (6.1%).

The findings reveal that SMEs comprises of young and middle aged people.

The study sought to find out the distribution of the respondents by education level. The figure 4.2 reveals the findings.

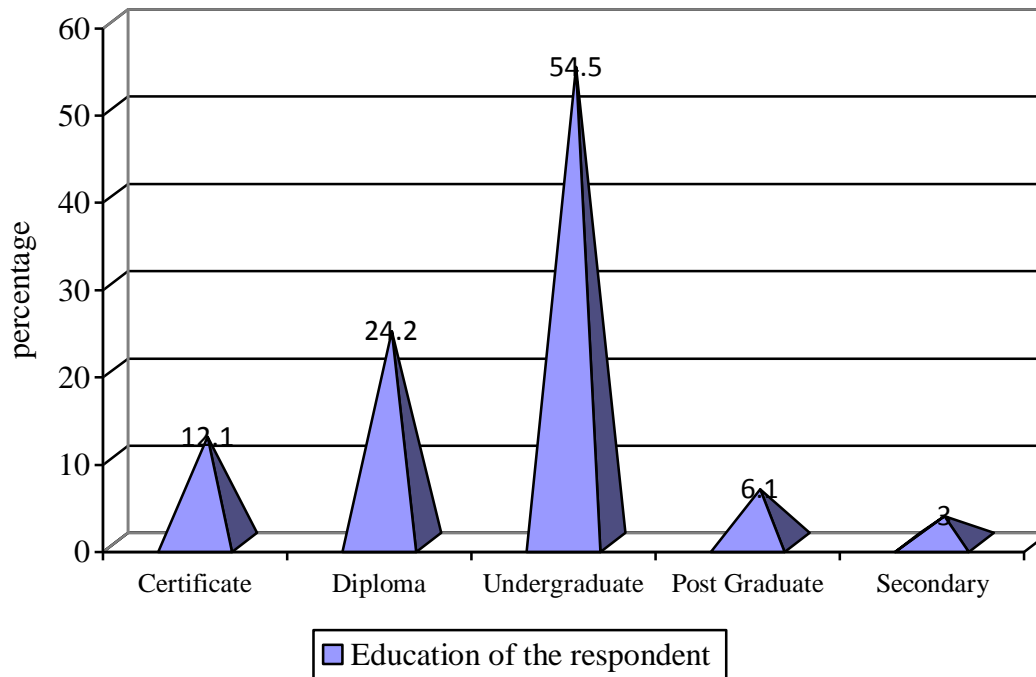


Figure 4.2: Education level of the SMES

Figure 4.2 shows that the majority of the SMEs represented by 54.5% have attained undergraduate level of education, 24.2% have attained diploma degree, 12.1% have attained certificate level of education, 6.1% have attained postgraduate level of education and 3.0% have attained A-level of education revealing that majority of the SMEs have attained tertiary education and have an idea about education, attained secondary level of education. This could imply that majority of the SMEs are learned having attained tertiary level of education.

The study sought to find out the nature of business of the SMEs. The findings are tabulated on Table 4.3.

Table 4.3: Nature of Business

Nature	Frequency (F)	Percentage (%)
Manufacturing	7	21.2
Agricultural	6	18.2
Hotel	5	15.2
Service	5	15.2
Commercial	8	24.2
Transport	2	6.1
Total	33	100.0

The table 4.3 reveals that majority of the SMEs are in commercial (24.2%), manufacturing (21.2%), agricultural (18.2%), service (15.2%), hotel (15.2%), and transport business (6.1%).

The study sought to find out the income level of the SMEs. The findings are tabulated on Table 4.4:

Table 4.4: Income level of the SMEs

Income	Frequency (F)	Percentage (%)
Below Ksh 10,000	2	6.1
Ksh 10,001 – 30,000	4	12.1
Ksh 30,001 – 50,000	8	24.2
Ksh 50,001 – 70,000	5	15.2
Ksh 70,001 – 90,000	11	33.3
Over 90,000	2	6.1
No response	1	3.0
Total	33	100.0

Table 4.4 reveals that, majority of the SMEs (33.3%) indicated that their level of income is Ksh 70,001 – 90,000, Ksh 50,001 – 70,000 (15.2%), Ksh 30,001 – 50,000 (24.2%), Ksh 10,001 – 30,000 (12.1%), Below Ksh 10,000 (6.1%) and Over 90,000 (6.1%).

The study sought to find out if the SMEs have a KRA PIN. The findings show that all the respondents (100.0%) have a KRA PIN. This was quite commendable as it shows that all the organizations that participated in the survey are duly registered for tax purposes.

The study sought to find out if the SMEs have filed their tax returns. The findings are shown on Figure 4.4

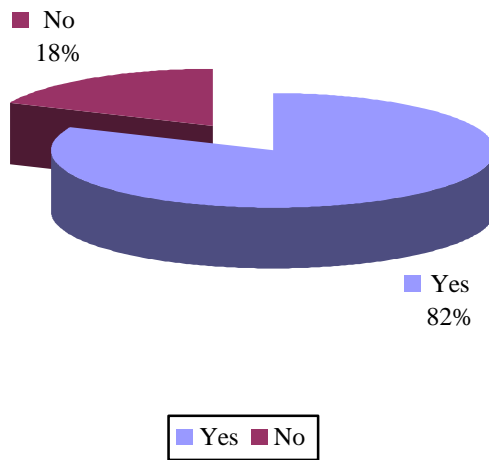


Figure 4.4: Filing of Tax returns

The results in Figure 4.4 indicate that almost all the SMEs (82.0%) agreed that they have filed their tax returns while 18.0% disagreed.

4.4 Tax Payer Education and Trainings

The study sought to find out if KRA offers tax payer education to its taxpayers. The findings are shown on Figure 4.5 below:

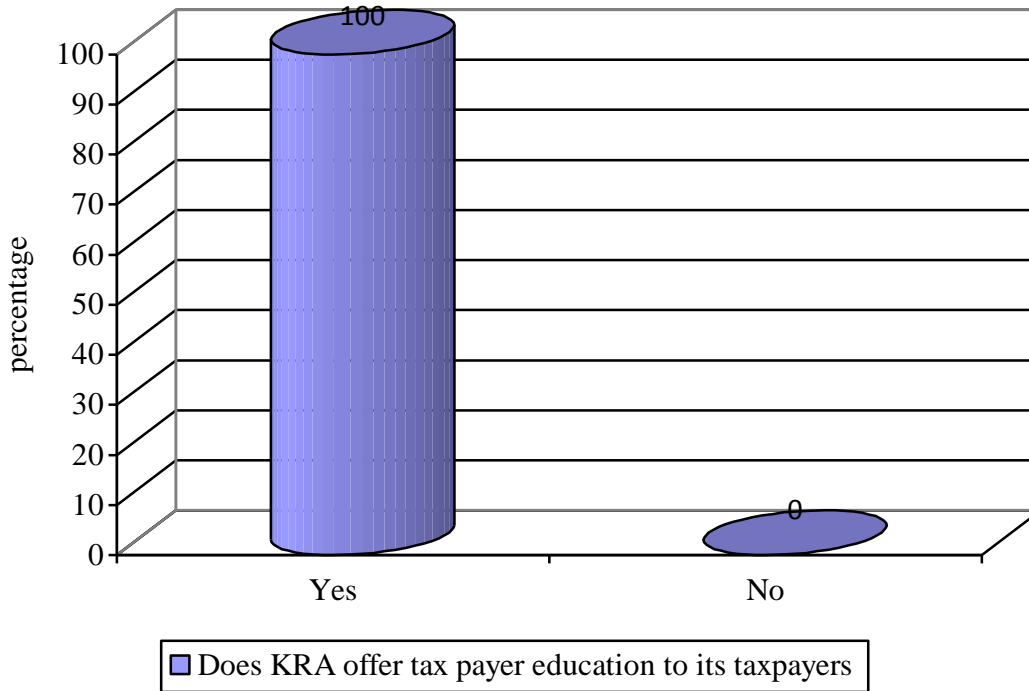


Figure 4.5: KRA offering tax payer education to its taxpayers

The figure shows that all of the respondents represented by 100.0% indicated that KRA offers tax payer education to its taxpayers.

The study sought to find out if the respondent has attended any of the tax payer education programs.

Figure 4.6: KRA offering tax payer education to its taxpayers

The figure shows that majority of the respondents represented by 87.9% agreed that they have attended any of the tax payer education programs while 12.1% disagreed.

The study sought to find out which areas of tax payer education trainings the respondent has been trained on. The findings are tabulated on Table 4.5:

Table 4.5: Areas of Training

Areas	Frequency (F)	Percentage (%)
Filing tax returns through iTax system	7	21.2
KRA PIN registration	3	9.1
Records keeping	1	3.0
Payment of taxes	6	18.2
All the above	12	36.4
No response	4	12.1
Total	33	100.0

Table 4.5 reveals that, majority of the SMEs (36.4%) indicated that they have been trained in all the areas of tax, Filing tax returns through iTax system (21.2%), Payment of taxes (18.2%), KRA PIN registration (9.1%) and Records keeping (3.0%).

4.5 Tax Compliance

The study sought to find out the extent to which the following statements in regard tax compliance in Kenya. The findings are tabulated below

Table 4.6: Tax compliance

	Strongly Disagree (%)	Disagree (%)	Neutral (%)	Agree (%)	Strongly Agree (%)
The company files returns on time and as required by law	0.0	0.0	0.0	6.1	93.9
The company declares correct monthly Value added tax	0.0	0.0	0.0	12.1	87.9
The company enjoys paying taxes and are always tax compliant	0.0	0.0	3.0	12.1	84.8

The system used for filing and submitting tax returns is unfriendly to tax payers usage	0.0	0.0	3.0	9.1	87.9
Taxpayers who perceive the tax authorities' enforcement actions to be ineffective are less compliant	0.0	0.0	0.0	0.0	100.0
The non-compliance of other taxpayers has a negative impact on the behavior of compliant tax payers	0.0	0.0	0.0	0.0	100.0
Tax revenues are not spent on public services as should be	0.0	0.0	0.0	3.0	97.0

The results in Table 4.6 indicate that, majority of respondents strongly agreed that: Taxpayers who perceive the tax authorities' enforcement actions to be ineffective are less compliant (100.0%), The non-compliance of other taxpayers has a negative impact on the behavior of compliant tax payers (100.0%), Tax revenues are not spent on public services as should be (97.0%), The company files returns on time and as required by law (93.9%), The company declares correct monthly Value added tax (87.9%), The system used for filing and submitting tax returns is unfriendly (87.9%) and The company enjoys paying taxes and are always tax compliant (84.8%) are statements regarding tax compliance in Kenya.

4.6 Effect of stakeholder sensitization programmes on VAT compliance

The study sought to find out if stakeholder sensitization programmes affect VAT compliance. The findings are shown in Figure 4.7

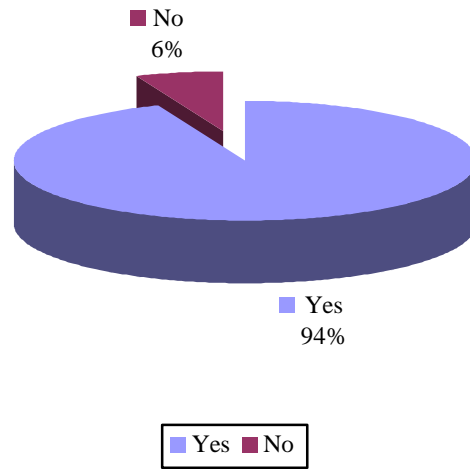


Figure 4.7: Effect of stakeholder sensitization programmes on VAT compliance

The results in Figure 4.7 indicate that majority the respondents (94.0.0%) agreed that stakeholder sensitization programmes affect VAT compliance while 6.0 disagreed. The findings are in line with researchers such as (Kasipillai, Norhani, and Noor, 2003) who noted that the influence of sensitization on compliance behaviours has been assessed in various researches. Knowledge as one of the factors in compliance is related to the taxpayers' ability to understand taxation laws, and their willingness to comply. The aspect of knowledge that relates to compliance is the general understanding about taxation regulations and information pertaining to the opportunity to evade tax. Sensitization programme is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government (Mohd, 2010).

The study sought to find out the extent to which stakeholder sensitization programmes affect VAT compliance. The findings are shown in Figure 4.8

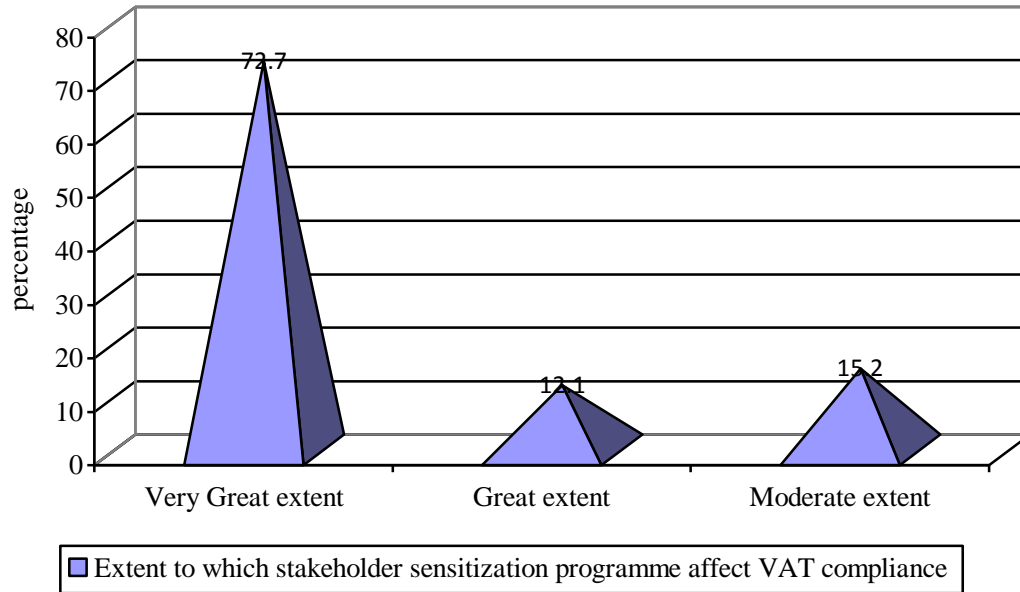


Figure 4.8: Extent to which stakeholder sensitization programmes affect VAT compliance

The findings on Figure 4.8 indicate that more than half (72.7%) of the respondents agreed to a very great extent that stakeholder sensitization programmes affect VAT compliance while 15.2% agreed to a moderate extent and 12.1% to a great extent that stakeholder sensitization programme affects VAT compliance.

The study sought to find out the extent to which the following statements in regard to effect of stakeholder sensitization programme on VAT compliance. The findings are tabulated below

Table 4.7: Extent to which stakeholder sensitization programmes affect VAT compliance

	Strongly Disagree (%)	Disagree (%)	Neutral (%)	Agree (%)	Strongly Agree (%)
Taxpayer awareness has enabled tax payers file their returns easily.	0.0	0.0	0.0	0.0	100.0
Taxpayer awareness programs by KRA have resulted into an increased tax base and revenue collection	0.0	0.0	3.0	12.1	84.8
Taxpayer sensitization has played a vital role in changing the attitudes of taxpayers.	0.0	0.0	0.0	9.1	90.9
Taxpayer awareness has enlightened the public on the need to pay taxes.	0.0	0.0	0.0	15.2	84.8
Workshops are more detailed and provide ample time for the company to conceptualize ideas.	0.0	0.0	0.0	24.2	75.8
Good record keeping is very important in an organization so as to facilitate correct filing of taxes.	0.0	0.0	0.0	9.1	90.9

The results in Table 4.7 indicate that, majority of respondents strongly agreed that: Taxpayer awareness has enabled tax payers file their returns easily (100.0%), Taxpayer sensitization has played a vital role in changing the attitudes of taxpayers (90.9%), Good record keeping is very important in an organization so as to facilitate correct filing of taxes (90.9%), Taxpayer awareness programs by KRA have resulted into an increased tax base and revenue collection (84.8%), Taxpayer awareness has enlightened the public on the need to pay taxes (84.8%), and Workshops are more detailed and provide ample time for the company to conceptualize ideas (75.8%), as statements regarding effect of stakeholder sensitization programme on VAT compliance in Kenya.

4.7 Effect of print media taxpayer education on VAT compliance

The study sought to find out if print media education affects VAT compliance. The findings are shown in Figure 4.9

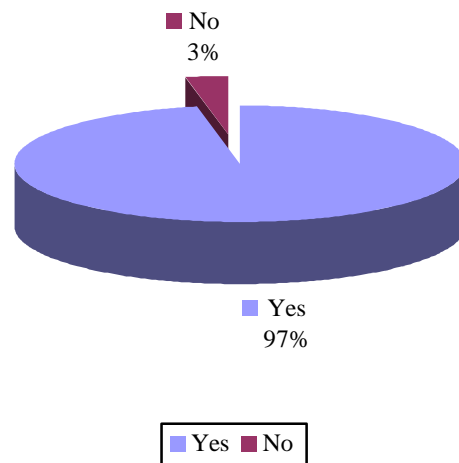


Figure 4.9: Effect of print media education on VAT compliance

Source: Study (2019)

The results in Figure 4.9 indicate that almost all the respondents (97.0%) agreed that print media education VAT compliance while 3.0% disagreed. The findings support a study by Udoba (2017) who recommended that tax education should be provided at all levels of education from Primary school to University level in Tanzania by introducing a special subject dealing with tax policies, tax and fees laws and to reduce the number of taxes, Also to provide education through the recommended local media from the study which were: Print media, local Television (TV) and Radio. Angus et.al, (2016) paper sought to review research about Kenya's individual compliance in tax and found that media campaigns in TV, use of magazines and journals, newspapers and

business prospects encourage taxpayers to pay taxes, file their tax returns, and thus increase their tax morale as well as increasing awareness.

The study sought to find out the extent to which print media education affects VAT compliance.

The findings are illustrated below in Figure 4.10

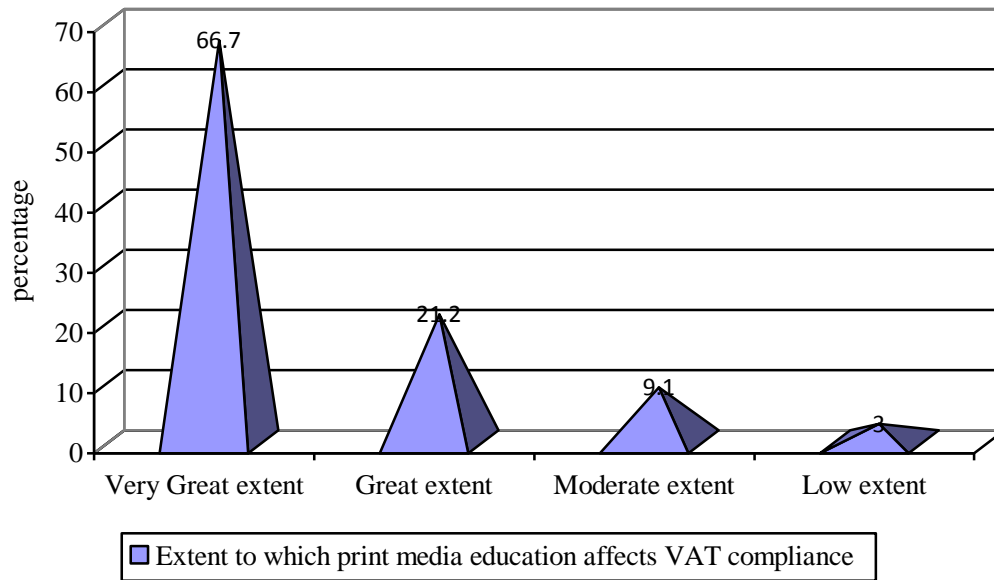


Figure 4.10: Extent to which print media education affects VAT compliance

The findings on Figure 4.10 indicate that more than half (66.7%) of the respondents agreed to a very great extent that print media education affects VAT compliance while 21.2% agreed to a great extent and 9.1% to a moderate extent that print media education affects VAT compliance. However, 3.0% agreed to a low that print media education affects VAT compliance.

The study sought to find out the extent to which the following statements in regard to Effect of print media education on VAT compliance. The findings are tabulated below

Table 4.8: Extent to which print media education affects VAT compliance

	Strongly Disagree (%)	Disagree (%)	Neutral (%)	Agree (%)	Strongly Agree (%)
The company receives tax updates from the newspaper	3.0	9.1	9.1	72.7	6.1
Magazines with tax information are readily available	3.0	27.3	36.4	30.3	3.0
KRA brochures have been very useful to me	0.0	0.0	0.0	78.8	21.2

The results in Table 4.8 indicate that, majority of respondents agreed that: KRA brochures have been very useful to me (78.8%); the company receives tax updates from the newspaper (72.7%), and magazines with tax information are readily available (30.3%) as statements regarding effect of print media education on VAT compliance. However, 27.3% of the respondents disagreed that magazines with tax information are readily available as a statement regarding effect of print media education on VAT compliance.

4.8 Effect of electronic media education on VAT compliance

The study sought to find out if electronic media education affects VAT compliance. The findings are shown in Figure 4.11

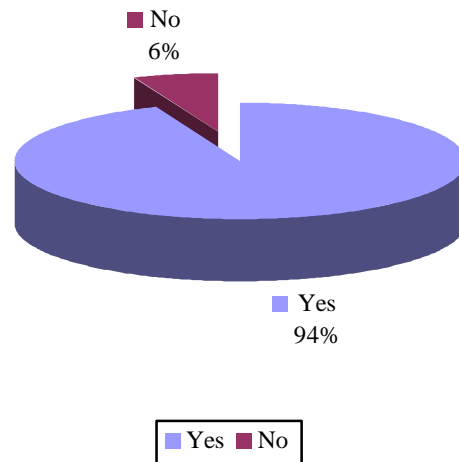


Figure 4.11: Effect of electronic media education on VAT compliance

The results in Figure 4.11 indicate that almost all the respondents (94.0%) agreed that electronic media education VAT compliance while 6.0% disagreed. The findings support a study by Christina, Deborah and Gray (2013) determined the economic and behavioral factors having an effect on compliance of tax. The study found that ignorance in tax laws and not having enough knowledge on ICT affect tax compliance. According to SAS (2007), a holistic view of taxpayers through use of electronic means would facilitate compliance by use of dynamic comprehensive approaches. Study supports that this approach would enable an organization gain a single view of the tax payer; increase auditor efficiency; enhance policy analysis ability and improve performance management.

The study sought to find out the extent to which electronic media education affects VAT compliance. The findings are shown in Figure 4.12

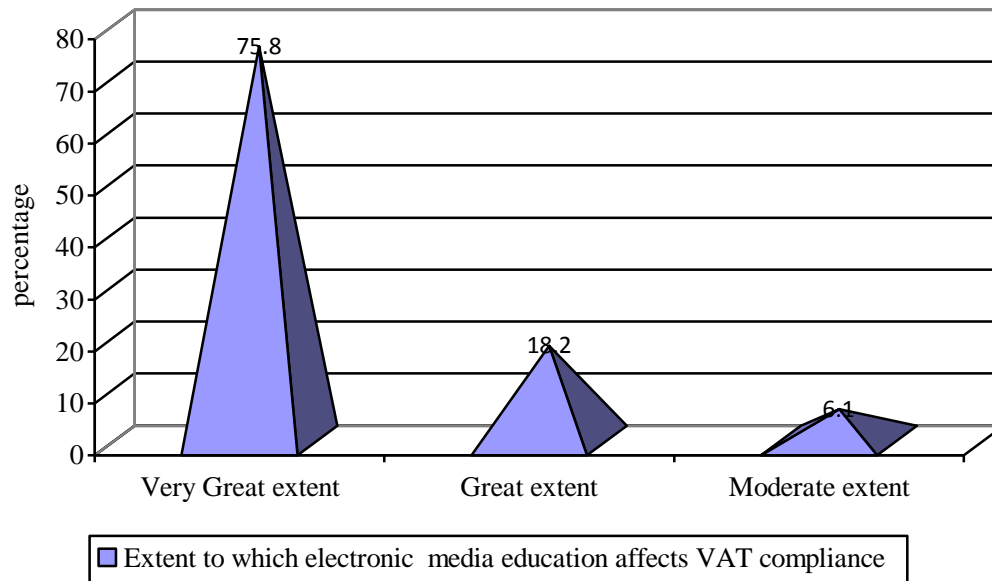


Figure 4.12: Extent to which electronic media education affects VAT compliance

The findings on Figure 4.12 indicate that more than half (75.8%) of the respondents agreed to a very great extent that electronic media education affects VAT compliance while 18.2% agreed to a great extent and 6.1% to a moderate extent that electronic media education affects VAT compliance.

The study sought to find out the extent to which the following statements in regard to Effect of print media education on VAT compliance. The findings are tabulated below

Table 4.9: Extent to which print media education affects VAT compliance

	Strongly Disagree (%)	Disagree (%)	Neutral (%)	Agree (%)	Strongly Agree (%)
KRA has been advertising important tax issues on most of the channels on television.	0.0	0.0	0.0	12.1	87.9
Electronic media enables the public to access information easily at any time	0.0	0.0	0.0	18.2	81.8
There is a lot of useful information available on the KRA website	0.0	0.0	0.0	0.0	100.0
The introduction of iTax has made it easy for company to comply.	0.0	0.0	0.0	6.1	93.9

The results in Table 4.9 indicate that, majority of respondents agreed that: there is a lot of useful information available on the KRA website (100.0%), the introduction of iTax has made it easy for company to comply (93.9%), KRA has been advertising important tax issues on most of the channels on television (87.9%) and electronic media enables the public to access information easily at any time (81.8%) as statements regarding effect of electronic media education on VAT compliance.

The study sought to find out challenges faced in becoming VAT compliant in the company. The responses given include: lack of enough knowledge on VAT compliance; complexity of the tax laws making it difficult for SMEs to comprehend the laws; high VAT tax rates; and lack of proper sensitization of the SMEs on KRA's expectation.

4.9 Regression Analysis

Regression analysis was used to model, examine, and explore the effect of taxpayer education on value added tax compliance among small and medium enterprises in Kenya against the three independent variables (stakeholder sensitization programme, print media education, electronic media education) used for the study, this was important in measuring the extent to which changes in one or more variables jointly affected changes in another variable. A model summary was generated providing the values of R, R Squared, Adjusted R Square and Standard error of the estimates for dependent and independent variables.

4.9.1 Model Summary

Table 4.10: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.893 ^a	.767	.284	.302

a. Predictors: (Constant), stakeholder sensitization programme, print media education, electronic media education

Source: Research Data (2019)

The correlation coefficient (R) measures the strength and direction of a linear relationship between two variables. The study established a correlation value of 0.893. This depicts a strong linear dependence between the two variables. The R-squared indicates the coefficient of determination, which is the proportion of variance in the dependent variable that can be explained by independent variables. An R-square value of 0.767 was established and adjusted to 0.284. The coefficient of determination depicts that 28.4% of the variations in VAT compliance

can be explained by stakeholder sensitization programme, print media education, electronic media education meaning that there are other factors that influence taxpayer education on value added tax compliance among small and medium enterprises in Kenya

4.9.2 ANOVA

Analysis of Variance (ANOVA) was used to determine the linear relationship among the variables under investigation. Using this method, the sum of squares, degrees of freedom (df), mean square, value of F (calculated) and its significance level was obtained. The results are shown in Table 4.11.

Table 4.11: ANOVA

ANOVA ^a						
Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	.717	11	.102	9.120	.029 ^a
	Residual	.183	98	.091		
	Total	.900	109			

a. Dependent Variable: effect of taxpayer education on value added tax compliance in Kenya

b. Predictors: (Constant), stakeholder sensitization programme, print media education, electronic media education

Source: Research Data (2019)

The table 4.11 shows that the independent variables statistically predicts the dependent variable (11, 98) =9.120, $p < 0.05$ (i.e. the regression model is a good fit for the data).

4.9.3 Coefficients

Table 4.12: Coefficients

Model		Coefficients ^a			t	Sig.
		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta		
1	(Constant)	1.910	2.327		.821	.498
	Stakeholder sensitization programme	.460	.235	.196	.190	.002
	Print media education	.329	.179	.073	.832	.018
	Electronic Media education	.117	.401	.050	.293	.027

a. Dependent Variable: effect of taxpayer education on value added tax compliance in Kenya
Source: Research Data (2019)

Table 4.12 further shows the constant in this model is represented by a value of 1.910, Stakeholder sensitization programme of 0.460, Print media education (0.329) and electronic media education (0.117). From the coefficients Table, the p-values for Stakeholder sensitization programme (0.002), Print media education (0.018), and electronic media education (0.027) are less than 0.05. This therefore means that stakeholder sensitization programme, print media education, and electronic media education are statistically significant and they therefore affect tax payer education on VAT compliance in Kenya.

Therefore, based on the analysis, the regression equation for the independent variable on the dependent variable resulted to the following;

$$Y = 1.910 + 0.460 + 0.329X_2 + 0.117X_3 + 0.302$$

Where:

Y = VAT compliance

β_0 = Constant Term

$\beta_{1,2,3}$ = Beta coefficients

X_1 = Stakeholder sensitization programme

X_2 = Print media education

X_3 = Electronic Media education

ε = Error

CHAPTER FIVE

SUMMARY CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

The study aimed at establishing the effect of taxpayer education on VAT compliance while focusing on three main variables, stakeholder sensitization programme, print media and electronic media taxpayer education among SMEs in Kitengela town.

Given below is a summary of the key study findings.

The findings revealed that majority of the respondents are male aged between 30-40 years and have attained undergraduate education. Majority of the SMEs are in commercial sector and have an income level of between Ksh 70,001 – 90,000. All the respondents have a KRA PIN and a majority agreed that they have filed their tax returns.

5.1.1 Tax Payer Education and Trainings

The study findings reveal that all the respondents indicated that KRA offers tax payer education to its taxpayers. The findings further reveal that majority of the respondents agreed that they have attended any of the tax payer education programs. Majority of the SMEs indicated that they have been trained in all the areas of tax that is, filing tax returns through iTax system, payment of taxes, KRA PIN registration and records keeping.

5.1.2 Tax Compliance

The findings reveal that majority of respondents strongly agreed that: taxpayers who perceive the tax authorities' enforcement actions to be ineffective are less compliant, the non-compliance of

other taxpayers has a negative impact on the behavior of compliant tax payers, tax revenues are not spent on public services as should be, the company files returns on time and as required by law, the company declares correct monthly value added tax, the system used for filing and submitting tax returns is unfriendly and the company enjoys paying taxes and are always tax compliant are statements regarding tax compliance in Kenya.

5.1.3 Effect of stakeholder sensitization programmes on VAT compliance

The study findings reveal that majority the respondents agreed that stakeholder sensitization programme affect VAT compliance. The findings further reveal that more than half of the respondents agreed to a very great extent that stakeholder sensitization programme affect VAT compliance. The findings further reveal that majority of Respondents strongly agreed that: taxpayer awareness has enabled tax payers file their returns easily, taxpayer sensitization has played a vital role in changing the attitudes of taxpayers, good record keeping is very important in an organization so as to facilitate correct filing of taxes, taxpayer awareness programs by KRA have resulted into an increased tax base and revenue collection, taxpayer awareness has enlightened the public on the need to pay taxes, and workshops are more detailed and provide ample time for the company to conceptualize ideas, as statements regarding effect of stakeholder sensitization programme on VAT compliance in Kenya.

5.1.4 Effect of print media education on VAT compliance

The study findings reveal that almost all the respondents agreed that print media education VAT compliance. More than half of the respondents agreed to a very great extent that print media education affects VAT compliance. The findings further reveal that majority of Respondents

strongly agreed to: Media awareness has enlightened the public on the need to pay taxes KRA has invested in media to enable them reach both urban and rural areas, Electronic media enables the public to access information easily at any time, and Media awareness has enabled tax payers file their returns easily as statements regarding influence of print media education on VAT compliance. The findings reveal that majority of the SMEs strongly agreed that: KRA brochures have been very useful to me; the company receives tax updates from the newspaper, and magazines with tax information are readily available as statements regarding effect of print media education on VAT compliance.

5.1.5 Effect of electronic media education on VAT compliance

The study findings reveal that almost all the respondents agreed that electronic media education VAT compliance. More than half of the respondents agreed to a very great extent that electronic media education affects VAT compliance. The findings further reveal that majority of Respondents strongly agreed to: there is a lot of useful information available on the KRA website, the introduction of iTax has made it easy for company to comply, KRA has been advertising important tax issues on most of the channels on television, and electronic media enables the public to access information easily at any time as statements regarding effect of electronic media education on VAT compliance..

The findings reveal that the challenges faced in becoming VAT compliant in the company include: lack of enough knowledge on VAT compliance; complexity of the tax laws making it difficult for SMEs to comprehend the laws; high VAT tax rates; and lack of proper sensitization of the SMEs on KRA's expectation.

The study findings reveal p-values for stakeholder sensitization programme, print media education and electronic media education are less than 0.05. This therefore means that stakeholder sensitization programme, print media education and electronic media education are statistically significant and they therefore affect VAT compliance in Kenya.

5.2 Conclusion

The study found that majority the respondents agreed that stakeholder sensitization programme affect VAT compliance to a very great extent. The findings are in line with researchers such as (Kasipillai, Norhani, and Noor, 2003) who noted that the influence of sensitization on compliance behaviours has been assessed in various researches. Knowledge as one of the factors in compliance is related to the taxpayers' ability to understand taxation laws, and their willingness to comply. The aspect of knowledge that relates to compliance is the general understanding about taxation regulations and information pertaining to the opportunity to evade tax. Sensitization programme is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government (Mohd, 2010).

The study found that almost all the respondents agreed that print media education VAT compliance. To a very great extent. The findings support a study by Udoba (2017) who recommended that tax education should be provided at all levels of education from Primary school to University level in Tanzania by introducing a special subject dealing with tax policies, tax and fees laws and to reduce the number of taxes, Also to provide education through the recommended local media from the study which were: Print media, local Television (TV) and

Radio. Angus *et.al*, (2016) paper sought to review research about Kenya's individual compliance in tax and found that media campaigns in TV, use of magazines and journals, newspapers and business prospects encourage taxpayers to pay taxes, file their tax returns, and thus increase their tax morale as well as increasing awareness.

The study found that almost all the respondents agreed that electronic media education VAT compliance to a very great extent. The findings support a study by Christina, Deborah and Gray (2013) determined the economic and behavioral factors having an effect on compliance of tax. The study found that ignorance in tax laws and not having enough knowledge on ICT affect tax compliance. According to SAS (2007), a holistic view of taxpayers through use of electronic means would facilitate compliance by use of dynamic comprehensive approaches. Study supports that this approach would enable an organization gain a single view of the tax payer; increase auditor efficiency; enhance policy analysis ability and improve performance management.

Therefore, study concludes that stakeholder sensitization programme, print media education and electronic media education are statistically significant and they therefore affect VAT compliance in Kenya.

5.3 Recommendations

On the basis of the above, conclusions, the following recommendations were made for the effect of taxpayer education on value added tax compliance in Kenya.

The study sought to find out suggestions/recommendations towards effect of taxpayer education on value added tax compliance among small and medium enterprises in Kenya. The responses

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

The study revealed that tax education is important in ensuring voluntary tax compliance among SMEs as it will ensure good record keeping, compliance costs will be minimized, good working environment will be strategies for marketing will be enhanced as well as the business person will be able to do their work freely. The study recommends a need to conduct a study on the challenges facing tax payer education and sensitization in Kenya.

The ministry of education has to introduce taxpayers' education and try to include the public finance and taxation course in the curriculum of all departments. This is because, tax is one of the major sources of revenue for a government which is used in general to finance public expenditures and if tax education influences tax compliance attitude of tax payers, the tax course (similar to civics and ethics) must be provided as a common course for all.

Greater education potentially increases compliance; as educated taxpayers are more aware of their responsibility as well as the sanctions to be imposed if they were not compliant with tax laws. Education levels become more important in increasing tax compliance across countries. One of the measures to increase voluntary compliance is by assuring that taxpayers have a certain level of qualifications, ability and confidence to exercise their tax responsibility.

5.5 Areas for Further Research

This study sought to establishing effect of taxpayer education on value added tax compliance in Kenya attempting to bridge the gap in knowledge that existed. Although the study attained these, it mainly focused on one town, Kitengela town. There is need to conduct a similar study in other towns in an attempt to compare the findings. The study was limited to three independent variables which are stakeholder sensitization programme, print media education and electronic media education. There is need to conduct a study focusing on other independent variables other than the ones used in this study. There is also need to conduct a study on the challenges facing tax payer education and sensitization in Kenya.

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APPENDICES

APPENDIX I: INTRODUCTION LETTER

Faith Kipruto.
JKUAT,
P.O Box, 30099-00100
NAIROBI.

To whom it may concern,

Dear Sir/Madam,

RE: REQUEST FOR RESEARCH INFORMATION

I am a student at JKUAT University currently undertaking a study on the effect of taxpayer education on value added tax compliance among SMEs in Kenya: Case of Kitengela Town. I would like to request your assistance in obtaining primary data related to this study by the use of questionnaire.

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

Thank you in advance.

Yours faithfully,

Faith Kipruto

HBD336-C016-6623/2016

APPENDIX II: STRUCTURED QUESTIONNAIRE

This questionnaire is designed to collect data on the **effect of taxpayer education on value added tax compliance among small and medium enterprises in Kitengela Town, Kenya.** Kindly complete the following questionnaire using the instructions provided for each set of question. Tick appropriately. Instructions: Please tick as appropriate. Do not write your name on this questionnaire.

PART A: Demographic Information

1. What is your gender?

Male Female

2. In which of the following age brackets does your age fall?

20-30 years 30-40 years 41-50 years 50 and above years

3. What is your education level (state the highest level)

Certificate Diploma Undergraduate
 Post graduate PhD Other _____

4. Nature of Business?

Manufacturing Agricultural Hotel
 Service Commercial Other _____

5. Level of Income?

Below Ksh 10,000 Ksh 10,001 – 30,000 Ksh 30,001 – 50,000
 Ksh 50,001 – 70,000 Ksh 70,001 – 90,000 Over 90,000

6. (a) Do you have a KRA PIN?

Yes No

b) Have you filed tax returns?

Yes No

Part B: TAX PAYER EDUCATION AND TRAININGS

7. a). Are you aware of any tax payer education programs conducted by KRA?

Yes No

b). If yes, have you attended any of the tax payer education programs?

Yes No

8. Which of these areas of tax payer education trainings have you been trained on?

- Filing tax returns through iTax system
- KRA PIN registration
- Records keeping
- Payment of taxes

Part D: Tax Compliance

9. a) Please indicate the extent to which you agree or disagree with the following statements regarding tax compliance in Kenya? Indicate your response based on a 5-point scale by using a tick (✓) or X to mark the applicable box.

Tax Compliance	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
The company files returns on time and as required by law					
The company declares correct monthly Value added tax					
The company enjoys paying taxes and are always tax compliant					
The system used for filing and submitting tax returns is unfriendly to tax payers usage					
Taxpayers who perceive the tax authorities' enforcement actions to be ineffective are less compliant					
The non-compliance of other taxpayers has a negative impact on the behavior of compliant tax payers					
Tax revenues are not spent on public services as should be					

Part E: Effect of stakeholder sensitization programmes on VAT compliance

10. (a) In your opinion, does stakeholder sensitization programmes affect VAT compliance?

Yes No

(b) To what extent

- To a very great extent To a great extent To a moderate extent
 To a low extent To a very low extent

11. Please indicate your level of agreement agree with the following statements on effect of stakeholder sensitization programmes on VAT compliance? Indicate your response based on a 5-point scale by using a tick (√) or X to mark the applicable box.

Stakeholder sensitization programmes	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
Taxpayer awareness has enabled tax payers file their returns easily.					
Taxpayer awareness programs by KRA have resulted into an increased tax base and revenue collection					
Taxpayer sensitization has played a vital role in changing the attitudes of taxpayers.					
Taxpayer awareness has enlightened the public on the need to pay taxes.					
Workshops are more detailed and provide ample time for the Company to conceptualize ideas.					
Good record keeping is very important in an organization so as to facilitate correct filing of taxes.					

Part F: Effect of print media tax payer education on the VAT compliance

12. (a) In your opinion, does print media tax payer education affect VAT compliance?

- Yes No

(b) To what extent

- To a very great extent To a great extent To a moderate extent
 To a low extent To a very low extent

13. Please indicate your level of agreement agree with the following statements on effect of electronic media tax payer education on VAT compliance? Indicate your response based on a 5-point scale by using a tick (√) or X to mark the applicable box.

Print media tax payer education	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
The company receives tax updates from the newspaper					
Magazines with tax information are readily available					
KRA brochures have been very useful to me					

Part G: Effect of electronic media tax payer education on VAT compliance

14. (a) In your opinion, does electronic media tax payer education affect VAT compliance?

Yes

No

- (b) To what extent

To a very great extent

To a great extent

To a moderate extent

To a low extent

To a very low extent

15. Please indicate your level of agreement agree with the following statements on effect of electronic media tax payer education on VAT compliance? Indicate your response based on a 5-point scale by using a tick (√) or X to mark the applicable box.

Electronic media tax payer education	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
KRA has been advertising important tax issues on most of the channels on television.					
Electronic media enables the public to access information easily at any time					
There is a lot of useful information available on the KRA website					

The introduction of iTax has made it easy for company to comply.					
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16. What challenges do you face in becoming VAT compliant in the company?

17. Please give suggestions/recommendations towards the effect of taxpayer education on value added tax compliance among small and medium enterprises in Kenya.

THANK YOU FOR YOUR TIME AND COOPERATION!!