

**FACTORS AFFECTING INCOME TAX COMPLIANCE AMONG SMALL
SCALE MANUFACTURING FIRMS IN NAIROBI COUNTY, KENYA.
A CASE STUDY OF MANUFACTURING FIRMS IN KARIOBANGI LIGHT
INDUSTRY**

WAMUYU ALICE WANJIRU

**A RESEARCH PROJECT SUBMITTED TO SCHOOL OF BUSINESS IN
PARTIAL FULFILMENT FOR THE AWARD OF A POSTGRADUATE
DIPLOMA IN TAX ADMINISTRATION OF THE JOMO KENYATTA
UNIVERSITY OF AGRICULTURE AND TECHNOLOGY.**

OCTOBER 2019

DECLARATION

I declare that this research project is my original work and has not been presented for a diploma in any other university, college or institution.

SignatureDate.....

WAMUYU ALICE WANJIRU

HDB336-C016-0429/2018

This research project is submitted for examination with my approval as the university Supervisor.

SignatureDate.....

DR. MICHAEL MUMA

Lecturer: Kenya School of Revenue Administration

DEDICATION

This research study is dedicated to my dear family for their moral support during my study. They have always been wonderful to me and may God bless them all.

ACKNOWLEDGEMENT

I sincerely acknowledge the support of my supervisor Dr. Michael Muma for the great commitment and assistance being provided in this academic task. I would wish to extend my heartfelt gratitude to my colleagues at work because of their sincere support and sacrifices by standing in for me as I go about seeking information and developing this research study. I would also wish to extend my gratitude to the administrators of Kenya School of Revenue Administration for their willingness to support, direct and assist students to access the resource centers especially libraries when carrying out the research. Finally, I would also wish to acknowledge the representatives of the light manufacturing firms for their input in this study.

Thank you all.

TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS	v
LIST OF TABLES	viii
LIST OF FIGURES	ix
LIST OF ABBREVIATION AND ACRONYMS	x
OPERATIONAL DEFINITION OF TERMS	xi
ABSTRACT	xii
CHAPTER ONE	1
INTRODUCTION	1
1.0 Introduction	1
1.1 Background of the Study	1
1.2 Statement of the Problem.....	5
1.3 Objectives of the Study.....	6
1.3.1 General Objective.....	6
1.3.2 Specific Objectives	6
1.4 Research Questions	6
1.5 Justification of the Study	7
1.6 Scope of the Study.....	8
1.7 Limitations of the Study	8
CHAPTER TWO	9
LITERATURE REVIEW	9
2.1 Introduction	9
2.2 Theoretical review.....	10
2.2.1 Optimal Taxation Theory	10
2.2.3 The Tax Morale Theory	11
2.2.3 The Ability-to-Pay Theory of Taxation.....	12
2.2.4 Conceptual Framework.	13
2.3 Review of the Study Variables	13
2.3.1 Filing Procedures.....	13

2.3.2 Hiring Auditing Services.....	14
2.3.3 Compliance Cost	14
2.4 Empirical Review.....	14
2.4.1 Filing Procedures and Income Tax Compliance	14
2.4.2 Hiring Auditing Services and Income Tax Compliance	16
2.4.3 Compliance Cost and Income Tax Compliance	17
2.4.4 Tax Compliance and Income Tax Compliance	20
2.5 Critique of Relevant Literature to the Study	20
2.6 Research Gaps.....	21
2.7 Summary from the Literature Review	21
CHAPTER THREE	22
RESEARCH METHODOLOGY	22
3.1 Introduction	22
3.2 Research Design.....	22
3.3 Target Population	22
3.4 Sample Frame	23
3.5 Samples Design and Sampling Technique.	23
3.6 Data Collection Procedures.....	23
3.7 Data Collection Instruments.....	24
3.8 Pilot Testing.....	24
3.8.1 Validity of Research Instruments.....	24
3.8.2 Reliability of Research Instruments	25
3.9 Data Analysis and Presentation.....	25
CHAPTER FOUR.....	26
4.1 Introduction	26
4.2 Analysis of Response Rate.....	26
4.2.1 Response Rate	26
4.3 Descriptive Statistics	27
4.3.1 Gender	27
4.3.2 Level of Education.....	28
4.3.3 Work Experience	29
4.3.4 Filing Procedure	30
4.3.5 Cost of Outsourcing Audit Services.....	32

4.3.6 Compliance Cost	34
4.4 Inferential Statistics	36
4.4.1 Correlation Analysis	36
4.4.2 Coefficient of Determination.....	38
4.4.3 Multiple Regression Analysis.....	39
4.4.4 Analysis of Variance.....	40
CHAPTER FIVE	41
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	41
5.1 Introduction	41
5.2 Summary of Findings	41
5.2.1 Effect of filing procedure on income tax compliance among SMEs	41
5.2.2 Cost of Outsourcing Audit Services on income tax compliance among SMEs...	41
5.2.3 Effect of compliance cost on income tax compliance among SMEs	42
5.3 Conclusions.....	42
5.4 Recommendations	43
5.4.1 Filing Procedures.....	43
5.4.2 Cost of Outsourcing Audit Services.....	43
5.4.3 Compliance Cost	43
5.6 Suggestion for Further Study	44
REFERENCES	45
APPENDICES.....	48
Appendix I: Registered Light Manufacturing Firms	48
Appendix II: Questionnaire	50
Appendix III: Work Schedule.....	55
Appendix IV: Budget Plan 2019	56

LIST OF TABLES

Table 4.1 Filing Procedure	30
Table 4.2 Cost of Outsourcing Audit Services	32
Table 4.3 Compliance Cost.....	34
Table 4.4 Correlations	37
Table 4.5 Coefficient of Determination.....	38
Table 4.6 Multiple Regression Analysis.....	39
Table 4.7 Analysis of Variance.....	40

LIST OF FIGURES

Figure 2.1 Conceptual Framework.....	13
Figure 4.1 Response Rate.....	26
Figure 4.2 Gender Distribution.....	27
Figure 4.3 Highest Education Level of the Respondents.....	28
Figure 4.4 Work Experience.....	29

LIST OF ABBREVIATION AND ACRONYMS

PAYE	Pay As You Earn
PWC	Price Waterhouse Coopers
VAT	Value added Tax
KRA	Kenya Revenue Authority

OPERATIONAL DEFINITION OF TERMS

Taxation	A means by which government finances their expenditure by imposing charges on citizens and corporate entities. (Tomala, 2015).
Filing Procedure	The techniques that KRA has put in place to follow while submitting tax remittance files (Fu, 2014).
Auditing Services	The services provided by auditors from certified public accountants on monitoring business transaction of a given business enterprise (Huber, 2014).
Compliance Cost	Compliance costs refer to all costs, besides the actual tax liability, born by taxpayers and third parties in the process of ensuring that they comply with the provisions of the relevant tax laws (Lall, 2014).

ABSTRACT

The challenge facing revenue administration was to ensure that the taxpayers - pay the correct amounts of taxes, and that they do it at the correct time. Achieving full tax compliance is the ultimate goal of any revenue administration. However, the practice of tax evasion still presents a serious threat to achieving this goal, and it continues to directly deny the Government its rightful revenue. Therefore, this study sought to examine the factors affecting income tax compliance among the small scale manufacturing firms. The specific objectives of this study was in identifying the effect of filing procedures, auditing services, record keeping techniques and compliance cost on income tax compliance. The methodology of the study constituted descriptive research design. The population of the study were accounting representatives from the 55 registered light manufacturing firms at Kariobangi light industry. The sampling technique convenience sampling design. During data collection, questionnaires were used. In the analysis quantitative techniques which entailed deriving descriptive data aided by SPSS. The percentage ratings and frequencies were presented on tables and figures such as bar graphs. From the findings it was established that filing procedures were tedious and therefore, did not provide good opportunities for traders to follow up with tax compliance. However, despite the challenges on filing procedures, some traders indicated that they do still seek assistance from other professional service providers who guides them through the process. Traders indicated that auditing services was quite an expensive affair. This was an indication that those who were able to afford the services were able to meet the requirements from the KRA regarding tax remittance and compliance. The study recommends that there is need for the management at KRA to ensure that filing procedures are simplified. The tax filing procedures should be simplified to the extent that even the least learned traders are able to operate the services without seeking professional services from external consultants.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter provides the details about the background to the study, the statement of the research problem, objectives of the study, the research questions, justification of the study, the scope of the study and the limitations of the study.

1.1 Background of the Study

Taxation is means by which government finances their expenditure by imposing charges on citizens and corporate entities. A country's tax regime is always a key factor for any business considering moving into new markets. Any business likely to have a national impact or international impact tends to reach out to many new different markets in relation to its growth (Choong, 2015). In continuation Fu (2014) defines taxation is a means by which government finances their expenditure by imposing charges on citizens and corporate entities. Governments use taxation to encourage or discourage certain economic decisions.

According to Lemuria and Carter (2015) tax compliance refers to the degree to which taxpayers along with intermediaries like practitioners and clearing agents meet their legal obligations. Most modern tax and customs administrations rely on people willingly and voluntarily doing the right thing. Unfortunately in Africa, the vast majority of citizens both individual and corporate are not law-abiding and do not share a sense of responsibility to actively participate in building the country through making their fair tax contribution. According to Huber (2015) compliance refers to the degree to which taxpayers and traders, along with intermediaries like practitioners and clearing agents meet their legal obligations. Most modern tax and customs administrations rely on people willingly and voluntarily doing the right thing.

Kathawala (2014) assert that unfortunately in Africa, the vast majority of citizens both individual and corporate are not law-abiding and do not share a sense of responsibility to actively participate in building the country through making their fair tax contribution. In order to do the right thing, traders need to know what they have to do, have the ability to do it and then have the right motivation to take action, constituting pillars of any behavioral model and are at the heart of this approach to encouraging compliance.

1.1.1 Global Perspective of the Study

Tax Compliance can be defined as the degree to which a taxpayer complies (or fails to comply) with the tax rules of his country, for example by declaring income, filing a return, and paying the tax due in a timely manner. While Tax evasion can be defined as the failure by a person or business to comply with the tax obligations. Italy loses €183 billion, or \$242 billion, to tax evasion a year, and its debt of €1.9 trillion represents just over 10 years of tax evasion. Countries like Italy and Greece have vowed to crack down on tax evasion and cash transactions for goods and services that fall below the authorities' radar (Tomala, 2015).

Germany and Britain signed an agreement with Switzerland about recovering some tax revenue from accounts held by their citizens in Swiss banks. South America has the world's largest shadow economy compared with its G.D.P. followed by Africa and Europe, where income hidden from the tax authorities amounts to about 20.5 percent of G.D.P. That compares with 10.8 percent in North America (Association, 2012). In 2011, it cost governments worldwide about 5.1 % of their Gross domestic Product (GDP). In Europe tax evasion constitutes about 8% of the GDP of economies in the region. In North and South America, tax evasion costs economies 2% and 10% of their GDP respectively. Even in the most advanced economies in the world, tax evasion undermines revenue collection substantially (Rile, 2015).

1.1.2 Regional Perspective of the Study

A study by, Parliamentary Budget Office of Uganda (2015) shows that in 2008 the government could have increased the tax base by approximately Ushs.79.3 billion if the tax evasion among SMEs was addressed. The question as to why some people pay tax while others do not has raised a lot of concern among economists, governments and tax administrators alike. Tax revenues have, for quite some time, remained low relative to the number of both registered and non registered firms and individuals who are legally qualify to pay tax. Continued low revenue collection levels for government is detrimental to economic development of this nation (Cobham, 2016).

A large segment of the informal sector, especially the SMEs in Industrial area in Nairobi exhibit low tax compliance levels. Of the three East African countries of Kenya, Uganda, and Tanzania, tax evasion as a function of GDP is high. Uganda loses the least amount in tax evasion: In 2011, it lost 856 million USD, followed by Tanzania at 1.9 billion USD, and Kenya loses slightly over 2 billion USD. In 2011, the informal economy constituted 33% of the GDP in Kenya and represented 7% of total government expenditure

1.1.3 Local Perspective of the Study

Kenya relied on unified tax policies and an administrative system jointly administered by the initial three members of the EAC. This was a legacy of British colonial administration that all the three countries inherited at independence. At that point, the government's three main sources of tax revenue were: income tax; customs and excise duties; and Inland Revenue. Changes in both policies and administration were collaboratively determined and minimal until early 1970s. Following a decision to assign responsibility for income tax to each EAC member state, Kenya adopted the community legislation and enacted the Income Tax Act of 1973 (A.D.B, 2010).

Thereafter, three distinct phases of major initiatives in tax policy reforms can be discerned for Kenya. Tax policies introduced during the third phase: 2003/04 to 2008/09 Key changes to tax policy made by the NARC government (2003-2008) and coalition government (2008-2009) has so far evolved around ensuring equity, further widening the tax base, promoting increased investment and reducing the tax compliance burden. To promote equity GoK widened income tax bands by 5% in 2004/05. Tax bands had remained unchanged since 2002. In the same year, GoK also increased personal relief by 10%. From 16 June 2006, GoK increased the threshold turnover for VAT from KShs 3 million p.a. to KShs 5 million p.a. with a view to reducing the compliance burden for three quarters of registered taxpayers who either file nil returns, or whose turnover is not substantial (ADB, 2015).

1.1.4 Tax Compliance in Small Scale Enterprises

Small scale enterprises business are generally compliant, although there is room for improvement: A study carried on compliance rate by Price Waterhouse Coopers [PWC] (2016) showed 38% of firms payments are late, 26% of returns are filed late and the VAT audits show up to 60% reporting inaccuracy. Some large business owners tend to exploit grey areas of the law, and in recent years KRA had faced a number of challenges in respect of structured finance schemes and tax credit schemes. VAT under-declaration in by SMEs is of serious concern, where almost 70% of audited cases reveal incorrect disclosures. There is need to refocus on PAYE and corporate income tax, where audited cases show under-declaration of 50% and 61% respectively. In terms of filing behavior, 64% of corporate income tax returns are not filed on time, while 36% of VAT returns and 28% of PAYE returns are not filed on time. Over half of payments of corporate income tax and VAT are made late as stated in the study findings by (PWC, 2016).

Mutongi and Kenda (2014) in the theory of tax evasion, the factors affecting compliance behavior are an intersection of individual values and norms, societal values and norms, the belief in the justice and fairness of the system, the ease of compliance, the speed and accuracy of detection of non-compliance (the likelihood of getting caught), the speed and accuracy of corrective measures and the severity or impact of the deterrent measures. Assel (2014) stated that while the overall compliance climate is showing improvement, there is need to continuously focus efforts on not just sustaining the levels of willing compliance, but on creating a climate that is increasingly conducive to full compliance by all taxpayers.

1.1.5 Nairobi County Light Industry

Light industry is industry that is usually less capital-intensive than heavy industry, and is more consumer-oriented than business-oriented (i.e., most light industry products are produced for end users rather than as intermediates for use by other industries). Light industry facilities typically have less environmental impact than those associated with heavy industry, and zoning laws are more likely to permit light industry near residential areas. It is the production of small consumer goods. One economic definition states that

light industry is a "manufacturing activity that uses moderate amounts of partially processed materials to produce items of relatively high value per unit weight. Examples of light industries include the manufacturing of clothes, shoes, furniture, consumer electronics and home appliances.

1.2 Statement of the Problem

Tax compliance is concerned on the timely and accurate submission of tax remittance information to the revenue authority. The online filing system has a direct impact on the tax compliance levels (Nakiwala, 2015). Simiyu (2016) established that the system ensures that the taxpayer has filled all the required mandatory fields before allowing him to proceed to the next level. This has the effect of ensuring that the revenue authority receives relatively high quality data compared to the manual returns of the data. Taxation is an important source of income for both the national and county government for its a vital stream of income for government's improvement ventures.

However, Awadhi, 2015) established that tax compliance among SMEs is poor, tax evasion hampers government income accumulation in this manner wastefulness in Government spending since it decreases the limit of the state to assemble household incomes, assets that are required for speculations (The SMEs are noteworthy for financial development and generate taxable income for a country.

The challenge facing revenue administrations are to ensure that the taxpayers - pay the correct amounts of taxes, and that they do it at the correct time. Achieving full tax compliance is the ultimate goal of any revenue administration (Desai, 2015). However, Khayesi (2016) revealed that the practice of tax evasion still presents a serious threat to achieving this goal, and it continues to directly deny the Government its rightful revenue with presence cases of tax avoidance and tax evasions through collaboration of traders and selected people from the tax authority.

A number of studies have been accomplished in developing nations in regard to tax compliance, more so in Kenya. Wanjohi and Magutu (2016) analyzed how taxpayers attitude and influences impacts compliance conduct among SMEs in Kerugoya town. Mahadeo (2014) studied and established that less than 40 per cent of the traders had complied with tax requirements. Abrie and Doussy (2015) found that the finding report by Price warehouse Coopers on VAT under-declaration by SMEs showed that it is of

serious concern. Khayesi (2016) found that over half of payments of corporate income tax and VAT are made late manually and sometime through the use of iTax.

There are a number of studies addressing tax among SMEs, major focus were on attitude of tax payers and late tax remittance but little focus has been directed towards income tax compliance among the small scale manufacturing firms in Nairobi County specifically on filing procedure, auditing services and compliance cost. Thus, to address a research gap, this study aimed at examining the factors affecting income tax compliance among the small scale manufacturing firms in Nairobi County.

1.3 Objectives of the Study

The study was guided by general and specific objectives.

1.3.1 General Objective

The general objective of the study was to evaluate the factors affecting income tax compliance among the small scale manufacturing firms in Nairobi County.

1.3.2 Specific Objectives

The following objectives guided the study

- i. To determine the effect of filing procedure on income tax compliance among the small scale manufacturing firms in Nairobi County.
- ii. To find out the effect of hiring auditing services on income tax compliance among the small scale manufacturing firms in Nairobi County.
- iii. To establish the effect of compliance cost on income tax compliance among the small scale manufacturing firms in Nairobi County.

1.4 Research Questions

The following research questions guided the study

- i. How does filing procedures affect income tax compliance among the small scale manufacturing firms in Nairobi County?
- ii. How frequent do hiring auditing services affect income tax compliance among the small scale manufacturing firms in Nairobi County?
- iii. What is the effect of compliance cost on income tax compliance among the small scale manufacturing firms in Nairobi County?

1.5 Justification of the Study

The study is beneficial to the following;

1.5.1 The Kenya Revenue Authority management.

The KRA management will find this research study useful because a collection of respondent's opinion and the researcher's recommendation will provide appropriate insights on the way forward to improving approaches of enhancing tax compliance.

1.5.2 Business Traders.

The business traders will have the opportunity to understand various techniques they will be expected to follow while fulfilling the tax compliance requirements being enforced by the State. The information therefore will create a basis for the traders to find the reasons as to why they are required to willingly comply with tax requirements.

1.5.3 Other Scholars and Other Researchers.

This research study will be considered useful by other researchers to understand the basis of improving their approach to undertaking varied research studies. The study findings will also act as reference material for future research in relation to tax compliance among the business owners.

1.5.4 The Government of Kenya.

The government will find this research study useful because a collection of respondent's opinion and the researcher's recommendation will provide appropriate insights on the way forward to improving approaches of enhancing tax compliance. This will lead to increased revenue to fund government projects.

1.6 Scope of the Study

The study was aimed at analyzing factors affecting income tax compliance among the small scale manufacturing firms in Nairobi County, a survey of manufacturing firms in Kariobangi Light Industry. The study specifically addressed the independent variables which constituted filing procedures, hiring auditing services and compliance cost while the dependent variables was income tax compliance among the small scale manufacturing firms. The study was located in Kariobangi industry area which is in Embakasi West constituency in Nairobi County in Kenya. Nairobi also serves as the economical and political capital.

1.7 Limitations of the Study

The researcher had initially encountered the challenges related to cooperation of respondents in attempt to answer the questionnaire. Some respondents were not readily available to disclose information regarding their business and tax compliance.

In the delimitation to this challenge, the researcher overcame this by assuring the respondents that the study was basically for academic purpose, therefore, their participation would highly be considered valuable service.

The perception of the respondents was also a major limitation since most of the respondents were not taking up this exercise seriously as it should and could have ended up failing to obtain appropriate data or providing misleading information which could have interfered with the data reliability and validity.

To overcome this limitation, the researcher gave elaborative explanation of the reason why the study was being carried out and this was expected to make them understand the benefit of carrying out this research study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter is a review of relevant literature which was considered necessary in helping to understand the research study. It addresses theoretical orientation, empirical review, and the conceptual framework.

2.2 Theoretical review

The theoretical literature review help establish what theories already exist, the relationships between them, to what degree the existing theories have been investigated, and to develop new hypotheses to be tested. Often this form is used to help establish a lack of appropriate theories or reveal that current theories are inadequate for explaining new or emerging research problems. The unit of analysis can focus on a theoretical concept (Swanson Richard A, 2008). The study is anchored on the following theories as used in the study. The theories are; Laffer Curve Theory, Optimal Taxation Theory and the Ability-to-Pay Theory of Taxation.

2.2.1 Optimal Taxation Theory

Optimal tax theory by Ramsey developed in 1927 revolves on the idea that designing and implementing a tax reduces inefficiency and distortion in the market under given economic constraints. Other things being equal, if a tax-payer must choose between two mutually exclusive economic projects (say investments) that have the same pre-tax risk and returns, the one with the lower tax or with a tax exemption would be chosen by a rational actor. Thus economists argue that taxes generally distort behavior (Wheeler, 2016).

The standard theory of optimal taxation posits that a tax system should be chosen to maximize a social welfare function subject to a set of constraints. The literature on optimal taxation typically treats the social planner as a utilitarian: that is, the social welfare function is based on the utilities of individuals in the society. In its most general analyses, this literature uses a social welfare function that is a nonlinear function of individual utilities. Nonlinearity allows for a social planner who prefers, for example, more equal distributions of utility (Lemuria & Carter, 2015). According to Lemuria & Carter (2015) it is often assumed that everyone in society has the same preferences over, say, consumption and leisure. Sometimes this homogeneity assumption is taken one step further by assuming the economy is populated by completely identical individuals.

This theory is advocated in this study because not only does it take into account the preferences of individuals, but also the technology involved in tax collecting. A practical application of this, for example, is implementing value-added taxes, a tax on the purchase price of a good or service, to correct tax evasion. He argues that any future tax literature

in normative theory needs to focus less on consumer preferences and more on tax-collecting technology and the areas of the economy that affect tax collection.

2.2.3 The Tax Morale Theory

The tax morale theory was first advanced by German scholars centered around Gunter Schmolders known as Cologne school of tax psychology. Tax morale can be termed as the individual factor that motivates a person to comply with his or her tax obligations. As a determinant of tax behavior, tax morals aim to explain how and why a tax payer morality influences his or her tax behavior. Many studies have found out that tax evasion can be attributed to the tax morale (Ming-Ling Lai, 2015).

Tax payers would be inclined to evade tax when the communities in which they live or operate disapprove of tax evasion. Tax payers are more likely to comply with tax obligation if their friends, relatives and acquaintances comply with these obligations. Also tax payers will evade taxes if they feel that other people are getting away with tax evasion. In other words, if a society tolerates tax evasion, such a society would encourage tax evasion (Waweru, 2014).

Cannon (2015) assert that tax payers would also evade tax when he or she perceives the cost of compliance is high. Tax systems and procedures that are involving and cumbersome tend to encourage tax evasion. Tax payers who feel that tax rate is high and punitive will evade tax. There is a negative correlation between tax evasion, the probability of detection, the degree of punishment and high transactional costs associated with tax laws. Income tax evasion was pioneered by Allingham and Sandmo (1972), where a rational and a moral taxpayer maximizes expected utility, which solely depends on income. When caught, the agent must pay penalties, imposed on the amount of evaded income.

A key comparative static result is that when the tax rate goes up, competing income and substitution effects might lead to more or less tax compliance. The substitution effect encourages evasion since the marginal benefit of cheating goes up with the tax rate. On the contrary, the income effect tends to suppress evasion since a higher tax rate makes the taxpayer with decreasing absolute risk aversion feel worse-off, and thus decrease risk-taking. Therefore, the net effect is ambiguous (Cannon, 2015).

In some instances tax payers can feel morally feel justified in evading taxes if they feel that the quality and quantity of public services and goods are unsatisfactory. The opposite is also true. In economies where the provision of pulic goods and services is satisfactory the evasion rates are low. Tax payers will tend to comply with their tax obligation if they feel that their government is honest, democartic and participatory and also if the tax payers feel they play a meaningful role in governance (Cummings, 2017).

In this study, tax payers attitude are important predictors of tax evasion thus the study aims to interperate the tax attitudes of SMEs and how it contribute to tax evasion. Since, the SMEs are prone to tax evasion as they face difficulties in complying with tax laws. They are expected to comply with strict deadlines, keep proper books of accounts. This kind of environment leads to tax evasion.

2.2.3 The Ability-to-Pay Theory of Taxation

Ability-to-pay taxation derived by Lade Kendrick in the American Economic Review in 1939 established that Ability-to-pay theory of taxation is a progressive taxation principle that maintains that taxes should be levied according a taxpayer's ability to pay. The theory is that individuals who earn more money can afford to pay in taxes (Wang, 2016).

According to the theory, Wang (2016) states that taxes should be based upon the amount of money people earn. For example, those who earn more money are expected to pay a higher rate of taxes--which means a higher portion of their income than people who earn less money. Critics of ability-to-pay taxation state that progressive tax systems reduce the incentive to earn more money and penalize those whose hard work and ingenuity have helped them earn higher incomes. These critics claim ability-to-pay taxation is not fair for wealthy individuals.

The phrase "ability to pay" refers to a taxation principle that supports progressive taxation systems. It does not necessarily ensure that an individual can afford his taxes, as affordability can be subjective. However, lawmakers work on modifying the tax code or revising deductions and credits to make taxes more affordable. If an individual owes back taxes to the Internal Revenue Service (IRS), however, he can apply for a payment plan or a reduced payment (Lall, 2014). The study helps to understand that as low-wage earners are more likely to spend all of their money, allowing them to keep a larger

percentage of it helps to stimulate the economy. Additionally, using ability-to-pay taxation has the potential to increase a government's revenues.

2.2.4 Conceptual Framework.

Miles and Huberman (1994) defined a conceptual framework as a visual or written product, one that explains, either graphically or in narrative form, the main things to be studied the key factors, concepts, or variables and the presumed relationships among them.

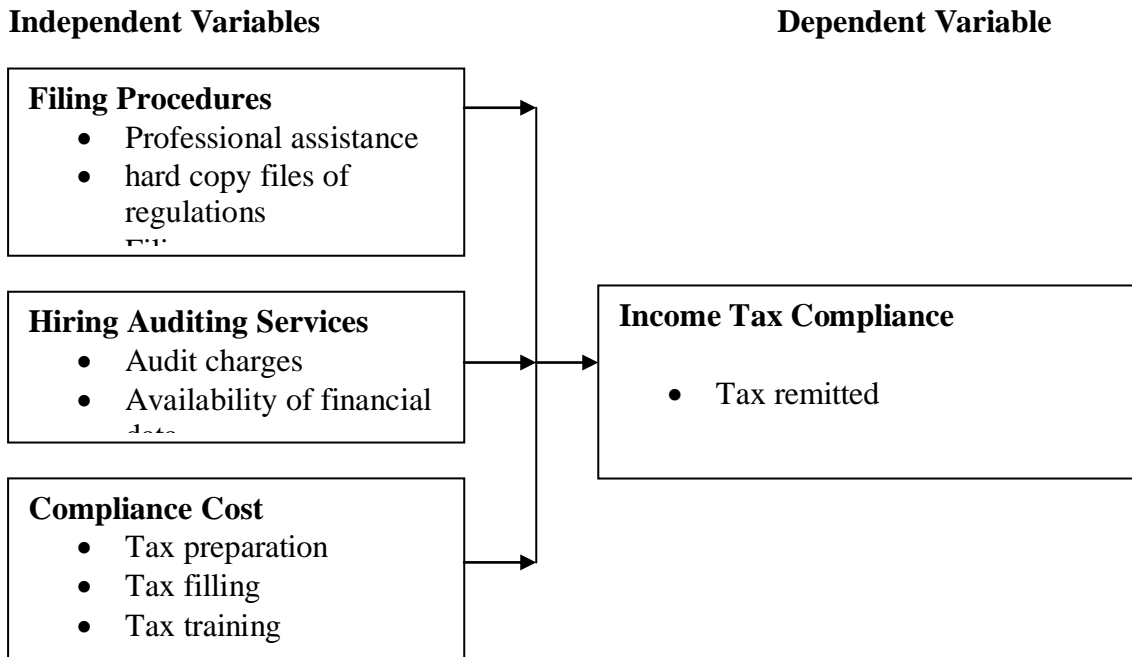


Figure 2.1 Conceptual Framework

2.3 Review of the Study Variables

2.3.1 Filing Procedures

In filing procedures, although, the income tax compliance through filing may offer potential benefits to improve administrative compliance efficiency, the benefits gained may be obstructed by tax users' unwillingness to accept and use the compliance systems. In essence, the move to adopt an income tax compliance is neither hassle free nor well accepted by all tax parties, particularly the tax agents and professionals. (Macharia M. 2015).

2.3.2 Hiring Auditing Services

Compliance and audit functions still focus on high risk to the bottom line businesses and areas of operation and undertake specific audits and investigations, usually relying upon hard copies of the regulations, manual files and Excel spread sheets. It also fails to address the fundamental requirement of the regulators and that is to comply with their regulations, irrespective of how insignificant an institution may think they are, because at the end of the day, a regulation is a regulation and a breach in compliance is not acceptable. (Kathawala M.2015)

2.3.3 Compliance Cost

Tax compliance costs are the costs incurred by taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities. These are costs over and above the actual payment of tax and over and above any distortion costs inherent in the nature of the tax. These costs would disappear if the tax was abolished. They include the costs of collecting, remitting and accounting for tax on the products and profits of the business and on the wages and salaries of its employees, and also the costs of acquiring and updating the knowledge to enable this work to be done, including knowledge or legal obligations and penalties.(Kothari M. 2014)

2.4 Empirical Review

2.4.1 Filing Procedures and Income Tax Compliance

The filing procedures, given the lack of investment in compliance functions in the past and therefore a lack of appropriate training in compliance and the interpretation of regulations, it must be questionable as to whether there is a sufficiently large pool of appropriately experienced personnel available to meet demand. Certainly, firms that do not have a large enough budget to recruit files experts are going to lose out, with possibly severe consequences (Ascher, 2015). However, Khayesi (2016) stated that many compliance and audit functions still operate in a very labor intensive environment with spread sheets and hard copy files of regulations that are often in different filing cabinets or even different locations. As a consequence, one of the problems many firms face is the easy identification of applicable regulations to a particular business area or authoritative body.

In most countries, income tax compliance through filing is not mandatory, rather it is offered as an option to taxpayers and their tax representatives. As a result, worldwide,

several studies found tax users' resistance to use tax filing system remains a widespread problem. Although, the income tax compliance through filing may offer potential benefits to improve administrative compliance efficiency, the benefits gained may be obstructed by tax users' unwillingness to accept and use the compliance systems. In essence, the move to adopt an income tax compliance is neither hassle free nor well accepted by all tax parties, particularly the tax agents and professionals (Kamarulzaman, 2015).

Lall (2014) says filing the accurate amount of sales and use tax due, on time, and accompanied by an accurate return are the nuts and bolts of any business' sales and use income tax compliance solution. The time and resources required to accomplish the work on the ground to regularly comply with sales tax legal requirements are absorbed in the finance section overhead. Mkandawire (2015) found that the monthly or quarterly filing cycle crush may even require reallocating resources away from activities more closely associated with actual revenue collection and profits. However, the effect of regular timely filing may also be measured by headaches. Rule changes, e-file requirements, changes in forms, changes in filing frequency, or even monthly rate and boundary changes all present challenges on a regular basis.

Kathawala (2014) the sales and use income tax compliance arena is fraught with challenges for businesses of all sizes and types. Sales and use taxes impact the business on a daily basis with legal liability requirements and they affect the business on a broader scale by their influence on strategic decision-making. The effects of sales and use tax management and compliance are not limited to traditional retailers either. All types of businesses must be aware of the instances of sales and use tax, and the challenges presented by calculation, collection and remittance of sales and use taxes and documenting tax-exempt sales.

A company must respond to aggressive taxability rules and definitions by dedicating the time necessary to remain current with states and localities' interpretation and enforcement. Inaccurate understanding of the rules applicable to the business can leave one with little cover in the event of an audit. Making a mistake on taxability will result in materially mis-stating the amount of sales tax owed and puts your business at risk of a damaging negative audit finding. It is bad business to go back to the customer and request additional sales tax due to your mistake as stated by (Abrie and Doussy, 2015).

2.4.2 Hiring Auditing Services and Income Tax Compliance

The auditing techniques have grown more sophisticated, business enterprises have simultaneously been hit with a cascade of budgetary and staffing restrictions, continually changing tax statutes and more rigorous requirements for privacy. As a result of these pressures, many business enterprises continue to rely on audit selection, tax collection and enforcement methods they know to be outdated. These include traditional “pay-and-chase strategies, in which taxpayers suspected of underreporting their tax liability are pursued and investigated several years after the first incidence of suspicious behavior as indicated by (Macharia, 2015).

Wheeler (2016) opines that compliance and audit functions are faced with a dilemma, particularly given limited resources. Should the focus continue to be on high risk business areas and run the risk of non-compliance in what are deemed low risk areas, or should compliance functions restructure their approach to try and address both the principles based and rules based regulatory requirements. When there is a focus on high-value cases for a relatively small number of taxpayers, business enterprises can lose significant revenue opportunities.

Cameron (2015) states that using broad criteria for audit selection has also led to almost 20 percent of all audits resulting in no change to the amount of tax due. Audits expend valuable staff time and resources to investigate taxpayers who are ultimately found to be compliant. Additionally, auditors often are unaware of the information that was used to initially select the case and may waste a great deal of time by focusing their audit research in the wrong areas.

Once potential offenders are identified, audit managers can assign cases based on the skills and experience of each auditor. Because tax evaders can be pursued at the first sign of trouble, business enterprises typically see a return on their investment within one year. And by reducing the number of no-change audits, as well as the length of the audit process, the Tax Audit and Compliance System can enhance auditor productivity. Finally, when taxpayers understand that their returns was quickly and scientifically analyzed voluntary compliance rates may rise, which could help business enterprises avoid costs and further improve revenue collection (Tomala, 2015).

Mutongi and Kenda (2014) says the system advances traditional compliance methods by using a more scientific, data-driven approach to audit selection. Beyond simple edits and matching, it uses advanced analytics, such as risk modeling, data mining and data visualization, to determine the likelihood of noncompliance. Both approaches are designed to give auditors and agents a clear indication of why a taxpayer has been flagged, so they know what to look for in an audit and can use their time more efficiently.

2.4.3 Compliance Cost and Income Tax Compliance

International Journal of Accounting and Taxation showed that people hardly consider the extra burden or costs besides the tax liability which the taxpayer incurs in the process of complying with the provisions of the tax legislation and requirements by tax authorities. Tax compliance costs refer to all costs, besides the actual tax liability, born by taxpayers and third parties in the process of ensuring that they comply with the provisions of the relevant tax laws and the requirements laid on them by the relevant taxing authorities, including the inconveniences encountered in the process of becoming and remaining tax compliant (Ming-Ling, 2015).

According to Price Waterhouse Coopers (2014), SMEs consistently report that complying with taxation regulation is a constraint on their growth and development due to the cost they have to incur to become and remain tax compliant. It is assumed that businesses in Kenya are not aware that tax compliance cost can be a significant cost of operations and could decrease their profitability. The results can also be used as documentation to convince the authorities to review the complexity of the tax system in Kenya in order to lower the compliance costs for SMEs.

Mwonge (2015) says tax compliance cost as the total time and money spent on filling out tax forms, keeping records, learning tax rules, and other tax related matters. Compliance costs of taxation are amount of resources expended by taxpayers, in addition to the amount of tax they are required to pay, in conforming to the requirements of the relevant tax legislation. Compliance costs are not only incurred by taxpayers but by all the agents/parties involved in making possible the transfer of funds from the private sector to the government department that controls public money.

According to Khayesi (2016) for individuals, compliance costs include the costs of acquiring sufficient knowledge to meet legal requirements; of compiling the necessary receipts and other data; making the relevant calculations and completing tax returns; paying professional advisors for tax advice; and paying incidental costs of postage, telephone, and travel to communicate with tax advisors or the tax office.

Desai (2014) stated that for a business, the compliance costs include the costs of collecting, remitting, and accounting for tax on the products or profits of the business, and on the wages and salaries of its employees. Tax Compliance costs for a business also includes the costs of acquiring the knowledge to enable this work to be done including the knowledge of their legal obligations and penalties.

Types of Tax Compliance Costs include administrative Costs Tax compliance cost from the administrative costs perspectives, are the costs that exist besides the occurrence of compliance costs that are borne by the companies. These costs are cited as those that the government must also take into account as a public cost to ensure that the tax legislation is obeyed. These are to some extent substitutable, for example when a country transfers from a system where the tax office calculates the tax owed, to a self assessment system as stated by (Awadhi, 2014).

Huber (2015) indicated that there is Time Spent, Cash Expenses and Psychological Costs. Another dimension of tax compliance cost definition is the division of tax compliance cost into three parts: time spent, cash expenses and psychological costs. The total time spent contains employee costs (in-house staff) and external costs (fees paid to outside accountants and other advisors). Hours by internal staff can be converted in expenses by means of an average hour rate. Kamarulzaman (2015) found that the psychological costs refer to the effects upon a taxpayer having to deal with tax affairs, for example mental stress. However, these costs are difficult to measure. Therefore, they are disregarded in most investigations.

Internal and External Costs, in describing tax compliance cost a distinction is often made between internal and external costs. Internal costs are generated by the accounting and administration department of the company. Internal staff will prepare all information and documents for the fiscal authorities and consult external advisors when necessary.

Mahadeo (2014) showed the external costs are generated by the services from lawyers, consultants and other advisors. These external costs are much easier to identify and quantify. Internal costs are more difficult to quantify since. They involve subjective estimations of the time spent on different tax activities.

Computational Costs and Tax Planning Costs, in describing tax compliance cost there is also the need to distinguish between computation costs and planning costs. The first are inevitable as for example the costs necessary to have a proper accounting system that already prepares the necessary information and calculates the amounts due for tax purposes. They are considered as recurrent administrative costs which cannot be avoided by the company, but which management can only try to fulfill their administrative duty as efficient as possible (Kangave, 2015).

2.4.4 Tax Compliance and Income Tax Compliance

Tax plays an important role in the growth of Small and Medium Enterprises (SMEs) in low income countries like Kenya. The role of SMEs is critical in pushing the socio-economic development agenda of the country further. Therefore, alignment of the tax system to the environment specific SME growth needs can be considered an important agenda for the policy makers (Al-Dmour, 2016). The SMEs in developing countries often face difficulties when dealing with tax matters. It would be rare indeed not to hear complaints about the complexity and or ambiguity of the tax laws, high tax rates, and the lack of an integrated fiscal strategy that takes social taxes, and local taxes and fees into account when determining the overall tax burden placed on the business community (Awadhi, 2015). This implies that as a policy maker and regulator, Government must consider the factors that could affect the competitiveness of the enterprises.

According to Choong (2015), assessing the impact of tax systems on SMEs is not simply a matter of looking at tax rates. Tax systems play an important role in encouraging growth, investment and innovation and facilitating international trade and mobility. For SMEs key considerations are to minimize administrative burden while ensuring compliance, including considering the drivers and impacts of operating in the informal economy. Hamzah (2015) established that taxes are perceived to be a major problem for both young and old firms. Therefore, taxation has showing a way towards impacting small and medium enterprise. Kathawala (2015) indicated that the GoK has attempted to mobilize revenue by bringing more SMEs to the tax bracket by introducing Turnover tax (TOT). There are four broad categories of obligations identified as Registration in the system, Timely filling or lodging of the required information, reporting of complete and accurate information and payment of taxes in time.

2.5 Critique of Relevant Literature to the Study

From the above literature there is a wealth of knowledge in the area of tax compliance and its impact on revenue generation. It can be observed that the general trend is that rates of taxes, nature and complexity of the tax, method of collection, enforcement mechanism, government transparency and the structure of the economy all have a positive impact on the level of compliance. This lends credence to the observation by Brown and Mazur (2014) that tax compliance is a multifaceted aspect which involves economic, psychological and socio-cultural factors. However other than Lumumba et.al

(2013) and the Simiyu (2013) with the former being mostly localized to SME's in Kirinyaga county and the latter being a book on taxation policy in Kenya, there has been no study on the taxpayer compliance behavior in Kenya or indeed in the developing world.

The most relevant published paper on this Alm et.al (2013) mostly based its research on the area of tax structure in Jamaica concluded that reduced tax rates coupled with bigger payroll benefits leads to higher compliance while there was low compliance if more severe penalties are imposed or if detection becomes more certain. However the paper only reviewed personal income taxes mostly PAYE rather than the whole range of taxes. From the literature it can be deduced that taxpayer compliance is generally correlated with revenue generation, it is therefore imperative that the factors determining taxpayer with regards to compliance are adequately studied and reviewed. This paper tries to bridge the gap between the available information about taxpayer compliance and what is optimal so as to design appropriate policies that can increase Tax performance in Kenya.

2.6 Research Gaps

In Kenya, the studies which have done have mainly focused on Large Taxpayers which are generally considered advanced in technology and understand the implications of noncompliance. Small taxpayers carry the burden of tax payment in Kenya, however no empirical studies have been done to establish the factors affecting income tax compliance among small scale manufacturing firms in Nairobi County. The current study should therefore, fill the gap in knowledge by focusing on small taxpayers who are the majority of taxpayers in Kenya numerically.

2.7 Summary from the Literature Review

This chapter is a review of relevant literature which is considered necessary in helping to understand the research study. It addresses theoretical review which helps to establish what theories already exist, the relationships between them, to what degree the existing theories have been investigated, and to develop new hypotheses to be tested. The chapter further comprised of the conceptual framework showing relationship between the independent variables and dependent variable. There is a review of the variables, empirical review and the research gaps.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the procedures that were used in conducting the study and the techniques that were adopted in obtaining the research data. It describes the research design, target population, sample and sampling procedures, instrumentation, data collection methods, data analysis and data presentation.

3.2 Research Design

The research design appropriate for this study was a descriptive survey design. This is because in Mugenda and Mugenda (2008), a descriptive survey design is considered to be a study that involves collecting information from a large number of cases, perhaps using questionnaires or any other suitable method. The survey generally involves quantitative analysis. Survey studies are usually used to find out about the facts by collecting the data directly from sampled respondents. Bray and Maxwell (2015) explains that an extensive descriptive survey design is carried out when a researcher wants to make generalization, whereas intensive descriptive survey design is done for making estimation. A descriptive survey design demands various tools to collect the data from samples. They range from use of questionnaires or interviews. The kind of survey study needed for any study is based on its purpose, nature of data and population and sample of the study.

3.3 Target Population

Target population is defined by Mugenda and Mugenda (2008) as a well-defined collection of individuals or objects known to have similar characteristics. While defines target population as the number of elements that has one or more characteristics in common that which can be studied or can provide information for studying (Peil, 2015). In this research, the target population for this study constituted 55 Registered Light Manufacturing Firms in Kariobangi Light Industry, Nairobi County. The respondents were accounting representatives who were chosen on the basis that they were responsible with accounting roles in their respective firms. The list of registered Light Manufacturing Firms in Kariobangi Light Industry are sourced from Ministry of Industrialization (2018) is shown on **Appendix I**.

3.4 Sample Frame

The study adopted a sample frame from the population of the study. The sample frame is defined as the source material or device from which a sample is drawn. It is a list of all those within a population who can be sampled, and may include individuals, households or institutions (Holborn & Langley, 2014). Therefore, the study involved only the Registered Light Manufacturing Firms in Kariobangi Light Industry as shown on appendix I.

3.5 Samples Design and Sampling Technique.

Sampling is the act, process, or technique of selecting a representative part of a population for the purpose of determining parameters or characteristics of the whole population (Glass & Hopkins, 2014). A sample is a selection of respondents chosen in such a way that they represent the total population as good as possible, a survey can only be truly valuable when it is reliable and representative for research (Orodho & Kombo, 2014).

The sampling design for this study was convenience sampling. It is defined by Peil (2011) as a type of non-probability sampling method where the sample is taken from a group of people easy to contact or to reach. In this study, the researcher targeted one (1) accounting representatives from each of the 55 list of registered Light Manufacturing Firms in Kariobangi Light Industry.. This brought about a total of 55 respondents.

Convenience sampling was used because it was easy to carry out with few rules governing how the sample should be collected. The relative cost and time required to carry out a convenience sample are small in comparison to probability sampling techniques (Holborn & Langley, 2015).

3.6 Data Collection Procedures

The researcher obtained primary data through administration of questionnaires. The questionnaire were issued and administered directly to the respondents. This involved drop and pick approach in which the researcher through the guidance of a research assistant undertook the data collection exercise.

3.7 Data Collection Instruments

Questionnaires were used as the main data collection instrument. These predetermined questions is when the respondents is served with questionnaires and are given a chance to fill and collect at a later date as agreed between the researcher and the respondents for analysis. This method was preferred by the researcher because it ensures the confidentiality of information given and the identity of the respondents are upheld, it also saves on time and is economical to use. Since it is presented on paper format, there was no opportunity for researcher bias. In addition, it is easy to administer and analyze (Kirk & Miller, (2015).

Questionnaire was developed and distributed to the respondents at the registered Light Manufacturing Firms in Kariobangi Light Industry; this was undertaken by the basic approach of hand delivery. A period of three days was allowed for the respondents to respond to the questionnaires which were collected back for analysis. Closed ended questions was adopted which usually suggests the answers to secure the most useful data.

3.8 Pilot Testing

This constitutes a rehearsal of the research study allowing the researcher to test the research approach with a small number of tests participants before the researcher conducts the main study.

3.8.1 Validity of Research Instruments

According to Mugenda and Mugenda (2008), validity is the extent to which results realized from the analysis of primary data collected in a research truly represents the phenomenon under study. Validity according to Veal and Darcy (2013) is the degree to which information collected by the researcher actually depicts the phenomenon being studied. The questionnaires were subjected to face validity test by the supervisor and research assistant.

This entailed a pre-test of its content, wording, sequence, form and layout, ease of questions and instructions. The respondent's remarks were noted and respective adjustments effected.

3.8.2 Reliability of Research Instruments

While reliability of a research instrument concerns the extent to which the instrument yields the same results on repeated trials; Therefore, reliability must be determined because there is generally a good deal of consistency in the results of a quality instrument gathered at different times (Lyon, 2014). To confirm reliability five questionnaires was developed then pilot tested (pretested) among the staff in the organizations. Their responses was used to assess whether the rest of questionnaires were reliable. However, at the end of the exercise, corrections were undertaken on the main questionnaires before they were all distributed to the entire respondents.

3.9 Data Analysis and Presentation

Data analysis as stated by Bray and Maxwell (2013) is the process of evaluating data using analytical and logical reasoning to examine each component of the data provided, this form of analysis is among the many steps that must be completed when conducting a research experiment, as data from various sources is gathered, reviewed, and then analyzed to form findings or conclusion.

The study adopted quantitative method. Quantitative techniques involve use of frequencies and percentage aided by SPSS software package to analyze data. The analyzed data WAS presented by use of diagrams such as pie charts and bar graphs. A multipleregression analysis was used to establish the combined effect on the study variables. The regression analysis model was specified as follows;

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

Where

Y = tax compliance;

X₁ = filing procedure;

X₂ = hiring auditing services;

X₃= compliance cost,

α = constants term, i.e. the tax compliance that does not depend on variables under study

$\beta_1, \beta_2, \beta_3$ = regression coefficients of X₁, X₂ and X₃ and

ε = error item

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter involved analysis, interpretation and presentation of data gathered from the respondents for the purpose of the research work. The analysis and interpretation of data in this section was based on the data collected from respondents using a structured questionnaire. This chapter used descriptive statistics to analyze the data in form of charts, bar charts and frequency distribution tables with calculated percentages.

4.2 Analysis of Response Rate

The following constitutes the presentation of the findings as per objectives of the study.

4.2.1 Response Rate

Figure 4.1 Response Rate

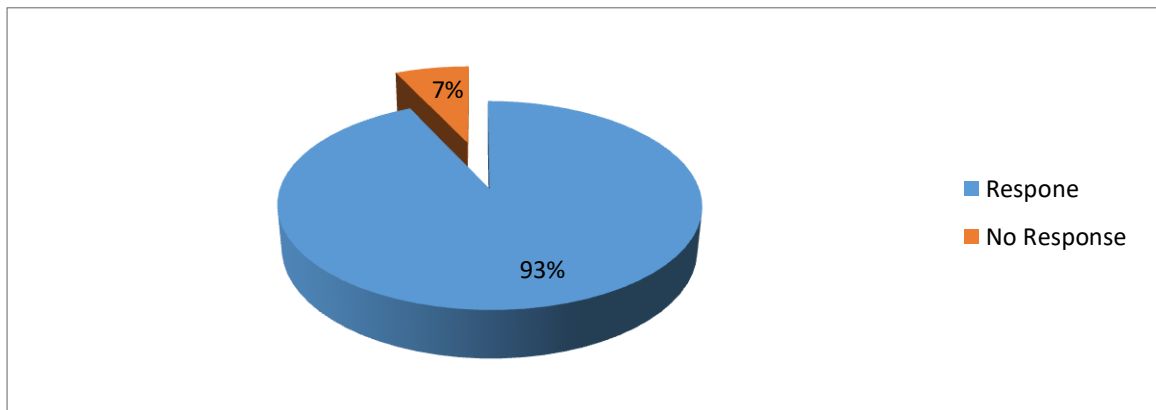


Figure 4.1 above showed 55 questionnaires were issued to the desired respondents from the selected groups for data collection out of which 51 were fully answered and returned and 4 questionnaires were not returned. Based on the percentage rate 93% were returned while 7% were not returned respectively. According to Mugenda and Mugenda (2014), a response rate of 50% is adequate for analysis and reporting, a response rate 60% is good

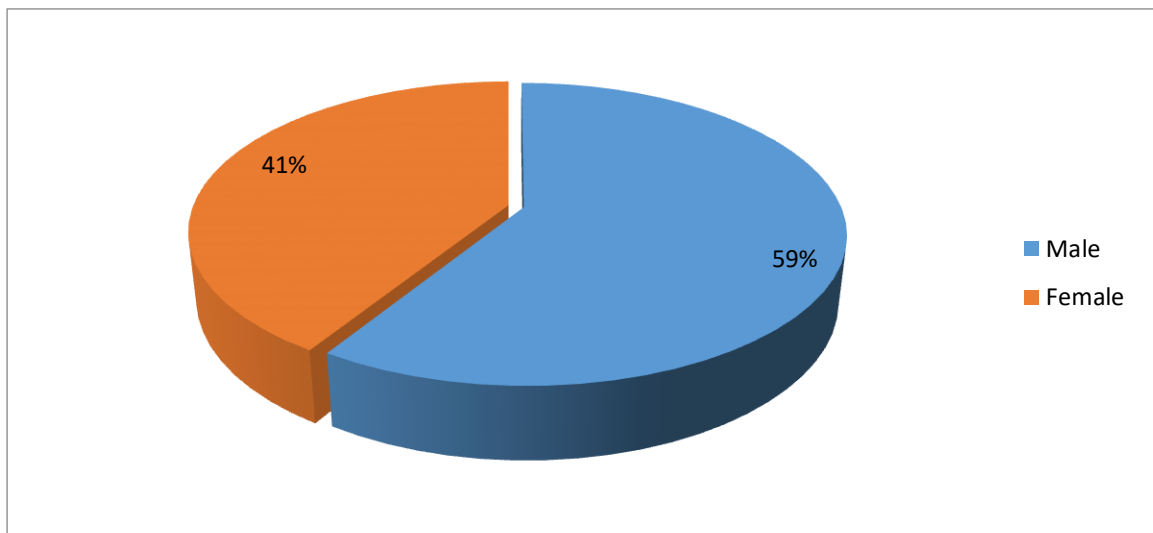
and a response rate of 70% and over is excellent. From this study, having 93% as a response rate was considered as excellent for the study.

4.3 Descriptive Statistics

General data included the characteristic of the respondents that had their questionnaires filled and brought back for analysis.

4.3.1 Gender

Figure 4.2 Gender Distribution



The presentation shown on figure 4.2 was about establishing the gender responses. It was established that 59% of the respondents were male while 41% of the total respondents were female. Going by the percentage response, the study established that there was balanced representation of gender in this study.

4.3.2 Level of Education

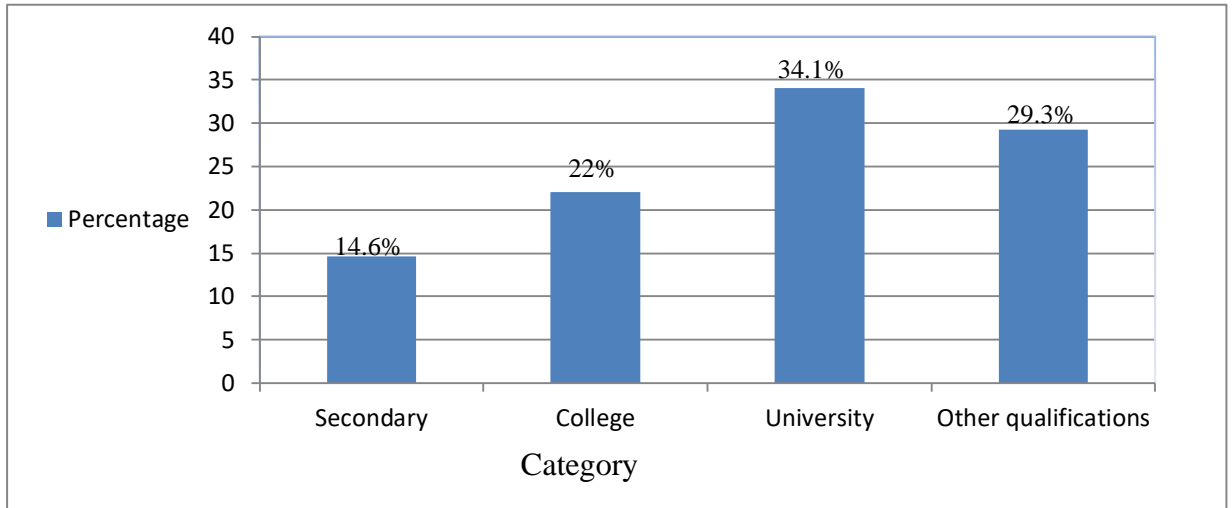


Figure 4.3 Highest Education Level of the Respondents

The figure 4.3 shows that 14.6% of respondents had secondary education, 22% of the respondents had college certificates in various fields while 34.1% had university degree and 29.3% other qualifications. The findings of the study show that most of the respondents had university level of education, an indication of learned workforce who understood aspects of company taxations.

4.3.3 Work Experience

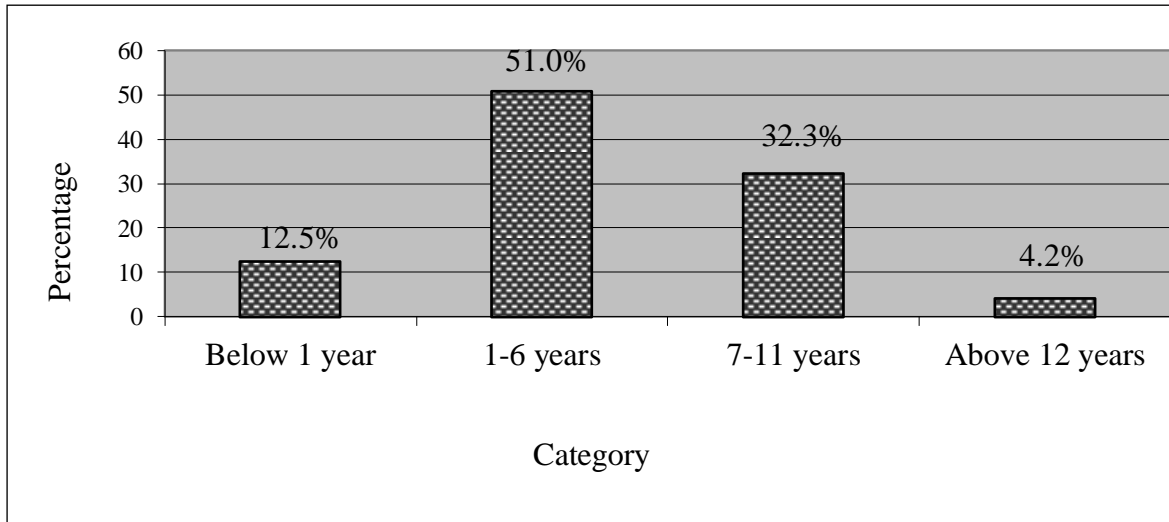


Figure 4.4 Work Experience

The study shown sought to find out the work experience of respondents, this was to assist in finding out the level of experience on cases that have existed about Income Tax Compliance. The results established that majority 51.0% of respondents had worked for a period between 1-6 years while 32.3% had a working experience of 7-11 years, whereas 12.5% had a working experience of below 1 year and least respondents being 4.2% had a working experience of above 12 years. Majority of respondents who had worked for a period between 1-6 years were believed to be familiar with cases of income tax compliance among the small scale manufacturing firms.

4.3.4 Filing Procedure

This section sought to determine the extent to which filing procedure affected income tax compliance among the small scale manufacturing firms.

Table 4.1 Filing Procedure

Narrations	Mean	Std Dev.
Tax filing procedures is tedious and time consuming.	4.22	0.92
The business owners seeks professional assistance to help in tax filing	4.41	0.90
Online filing is highly preferred	4.18	0.91
Compliance functions operate in a very labor intensive environment with spread sheets and hard copy files of regulations	3.80	0.94
There is tax filing errors preventing business owners from accurately meeting income tax compliance	3.94	1.05

From the findings, the study showed the extent to which filing procedure affected income tax compliance among the small scale manufacturing firms. The majority ratings were on the large extent and they included tax filing procedures is tedious and time consuming as illustrated by a mean score of 4.22, the business owners seeks professional assistance to help in tax filing as illustrated by a mean score of 4.41, Online filing is highly preferred as illustrated by a mean score of 4.18 while compliance functions operate in a very labor intensive environment with spread sheets and hard copy files of regulations as illustrated by a mean score of 3.80 and There is tax filing errors preventing business owners from accurately meeting income tax compliance as illustrated by a mean score of 3.94.

The implications derived from the findings reveals that KRA was expected to simplify more for the traders who have little knowledge of filing to find it easier to file the returns. Still, that some of the small scale business owners may lack the capacity to hire such services with the intention to be tax compliant. regarding online systems, majority preferred the online filing because of convenience and short period of time needed to submit. However, it was learnt that more simplified system interface was required. It was also noted that compliance functions operate in a very labor intensive environment with spread sheets and hard copy files of regulations. This was an indication that the intensity of job concerning the documentation was very heavy; revealing that KRA management were expected to ensure that few documentation process is enforced. On the tax filing errors, the study established that some of the financial information being included may not necessarily be accurate, resulting to regular errors which subjects the tax payers to penalties by the KRA.

4.3.5 Cost of Outsourcing Audit Services

This section sought to determine the extent to which cost of outsourcing audit services affected income tax compliance among the small scale manufacturing firms.

Table 4.2 Cost of Outsourcing Audit Services

Narration	Mean	Std Dev.
The business always seek external auditing services for tax compliance	4.71	0.46
Auditing services are very necessary for tax compliance	4.22	0.64
The costs prevents the business owners from seeking auditing services	4.53	0.67
There are cases of manipulation of financial reports affecting tax compliance	4.53	0.64
Auditors often are aware of the information needed to be disclosed for tax compliance	3.96	1.13

From the findings, the study showed the extent to which cost of outsourcing audit services affect income tax compliance among the small scale manufacturing firms. The majority ratings were on the large extent and the study revealed that the business always seek external auditing services for tax compliance as shown by a mean of 4.71, auditing services are very necessary for tax compliance as shown by a mean of 4.22, the costs prevents the business owners from seeking auditing services as shown by a mean of 4.53, there are cases of manipulation of financial reports affecting tax compliance shown by a mean of 4.53 as well and auditors often are aware of the information needed to be disclosed for tax compliance as shown by a mean of 3.96.

From this analysis, the study findings implied that from subject of whether business always seek external auditing services for tax compliance, it was noted that some of the services provided by the accountants were out of reach for some selected business owners. Thus, failing to provide proper accounting information for tax purposes. The findings revealed that as much as some small scale business owners failed to access the services of the accountants, they confirmed that the auditing services were very important for their business. The finding was an indication that quite a number of business owners especially small scale owners are unwilling to seek auditing services because of the costs involved and also the tax being considered as another cost. On the cases of manipulation of data, it was a revelation that some of the traders are failing to provide accurate information for taxing purposes which reduces the number of tax payers with the ability to fully comply with tax policies. From these assertions, the findings implied auditors' services were considered very relevant, therefore, business owners were required to seek their services for successful compliance purposes.

4.3.6 Compliance Cost

This section sought to determine the extent to which compliance cost affect income tax compliance among the small scale manufacturing firms.

Table 4.3 Compliance Cost

Narration	Mean	Std Dev.
Costs of developing filing system for taxation is very high	4.18	0.91
The costs required for hiring consultants are out of reach for business owners	4.51	0.73
The administrative costs are solely incurred by the business	4.25	0.80
There is high costs of acquiring sufficient knowledge to meet legal requirements in tax	4.61	0.63
Compliance costs include paying professional advisors for tax advice	4.53	0.58

From the research findings, the mean value of more than 4.00 indicated that majority of the respondents agreed to very large extent that costs of developing filing system for taxation is very high. This is illustrated by these findings that compliance cost increases income tax compliance, the costs required for hiring consultants are out of reach for business owners as illustrated by 4.18, the administrative costs are solely incurred by the business as indicated by a mean of 4.51. It was further noted that there is high costs of acquiring sufficient knowledge to meet legal requirements in tax, this is illustrated by a mean of 4.25 lastly; compliance costs include paying professional advisors for tax advice. This is supported by a mean of 4.53.

The implication drawn from the analysis shown revealed some of the traders have not ventured into using the computerized systems of recording sales because of high cost of such system. This means that there is no proper and accurate provision of data needed to calculate taxes. The analysis therefore revealed that the costs required for hiring consultants are out of reach for business owners. Therefore, the analysis implied that quite a number of traders are unable to hire accountants who are able to provide accurate financial reports for enhancing tax compliance purposes. The study implied that the costs of administration of business are solely incurred by the business owners and this means that there is no subsidy from the government in matters related to taxation. The lack of proper involvement by KRA to provide information has forced the traders to seek outside which some occasions may mislead the traders especially matters of techniques of evading tax.

4.4 Inferential Statistics

Inferential analysis has been used in this research to establish if there is a relationship between an intervention and an outcome, and also establish the impact of that relationship. The inferential analysis was carried out to establish the relationship between dependent variable and the independent variables. This involved computation of both multiple regression analysis and coefficient determination. The dependent variable in this study was income tax compliance among the small scale manufacturing firms in Kenya while the independent variables were; filing procedure, hiring auditing services and compliance cost. The qualitative data was manipulated to quantitative data for easy analysis.

4.4.1 Correlation Analysis

To quantify the strength of the relationship between the variables, the study used Karl Pearson's coefficient of correlation. The Pearson product-moment correlation coefficient (or Pearson correlation coefficient for short) is a measure of the strength of a linear association between two variables and is denoted by r . The Pearson correlation coefficient, r , can take a range of values from +1 to -1.

A value of 0 indicates that there is no association between the two variables. A value greater than 0 indicates a positive association, that is, as the value of one variable increases so does the value of the other variable. A value less than 0 indicates a negative association, that is, as the value of one variable increases the value of the other variable decreases. Pearson's Correlation Coefficient was carried out and the results obtained are presented in table 4.5 overleaf.

The correlation analysis is used to analyze the association between independent and dependent variables. The study used the Pearson Moment Correlation analysis to determine the association between filing procedure, hiring auditing services and compliance cost and income tax compliance among the small scale manufacturing firms in Kenya.

The results revealed that there was a strong positive correlation between filing procedure and income tax compliance as shown by $r = 0.754$, statistically significant $p = 0.002 < 0.01$; there was a positive correlation between hiring auditing services and income tax compliance as shown by $r = 0.804$, statistically significant $P = 0.000$; there was a positive correlation between compliance cost and income tax compliance in SMEs as shown by $r = 0.789$. This implies that there was relationship between filing procedure, hiring auditing services and compliance cost and income tax compliance among the small scale manufacturing firms in Kenya.

Table 4.4 Correlations

		income tax compliance	filing procedure	hiring auditing	Compliance cost
Income tax compliance	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	51			
Filing procedures	Pearson Correlation	.754**	1		
	Sig. (2-tailed)	.001			
	N	51	51		
Hiring auditing services	Pearson Correlation	.804**	.342	1	
	Sig. (2-tailed)	.000	.061		
	N	51	51	51	
Compliance cost	Pearson Correlation	.789**	.434	.545	1
	Sig. (2-tailed)	.002	.056	.057	
	N	51	51	51	51

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

4.4.2 Coefficient of Determination

The coefficient of determination is a measure of how well a statistical model is likely to forecast future outcomes. The r^2 is the square of the sample correlation coefficient between outcomes and predicted values. Therefore it defines the degree to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable, in this case the income tax compliance among the small scale manufacturing firms in Kenya that is explained by all the three independent variables (filing procedure, hiring auditing services and compliance cost). The coefficient of determination is presented in Table 4.6

Table 4.5 Coefficient of Determination

Model	R	R square	Adjusted R square	Std error of the estimate
1	0.889	0.790	0.736	0.32561

Adjusted R squared is coefficient of determination which illustrates the variation in the dependent variable as a result of changes in the independent variable. From the study, in the value of adjusted R squared was 0.736 an indication that there a was variation of 73.6 percent on income tax compliance among the small scale manufacturing firms in Kenya as a result of changes in filing procedure, hiring auditing services and compliance cost. This indicates that 73.6 percent changes in income tax compliance among the small scale manufacturing firms in Kenya could be accounted to filing procedure, hiring auditing services and compliance cost. This implies that the three factors are very critical to the income tax compliance among the small scale manufacturing firms.

4.4.3 Multiple Regression Analysis

In addition, the researcher conducted a multiple regression analysis so as to determine the state of income tax compliance among the small scale manufacturing firms in Kenya.

Multiple regression analysis was used to test the influence among predictor variables.

The results of Multiple Regression Analysis are tabulated in Table 4.7.

Table 4.6 Multiple Regression Analysis

Model	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	1.508	1.131		1.333	0.001
Filing procedure	0.481	0.228	0.203	2.110	0.002
Hiring auditing services	0.347	0.127	0.217	2.732	0.003
Compliance cost	0.416	0.115	0.316	3.617	0.001

From the computed data the established regression equation was

$$Y = 1.508 + 0.481X_1 + 0.347 X_2 + 0.416 X_3$$

Where: **Y** is the dependent variable (income tax compliance),

β_0 is the regression coefficient/constant/Y-intercept,

β_1 , β_2 , and β_3 , are the slopes of the regression equation,

X_1 is Filing procedure

X_2 is Hiring auditing services

X_3 is Compliance cost

Using the above regression equation it was revealed that holding filing procedure, hiring auditing services and compliance cost constant at zero, the income tax compliance would be at 1.508. The findings also show that a unit increase in filing procedure would lead to an increase in income tax compliance by factors of 0.481; a unit increase in Hiring auditing services would lead to increase in income tax compliance by factors of 0.347, a unit increase in compliance cost lead to increase an income tax compliance by a factor of 0.416. All the variables were significant as their values were less than ($p < 0.05$).

4.4.4 Analysis of Variance

Analysis are shown in Table 4.8

Table 4.7 Analysis of Variance

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1.724	4	.431	3.814	.001 ^b
Residual	5.198	46	.113		
Total	6.922	50			

Critical value =2.6060

The (p-value) was found to be less than 5%. The computed value was greater than the critical value ($3.814 > 2.6060$) an indication that all the independent variables; filing procedure, hiring auditing services and compliance cost affect the income tax compliance. From the ANOVA statistics, the research established the regression model had a significance level of 0.3% which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance was less than 0.05 indicating that the model was reliable.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The study comprised of the summary of findings, conclusions and the recommendations, the limitations of the study and finally the suggestions for further studies. The study focused on factors affecting income tax compliance among the small scale manufacturing firms in Nairobi County, a survey of manufacturing firms in Kariobangi Light Industry.

5.2 Summary of Findings

5.2.1 Effect of filing procedure on income tax compliance among SMEs

The summary showed filing procedures were considered a factor that was hindering the tax compliance among the small scale manufacturing firms. It was established from the majority of respondents that filing procedures were tedious and therefore, did not provide good opportunities for traders to follow up with tax compliance. However, despite the challenges on filing procedures, some traders indicated that they were still seeking assistance from other professional service providers who were guiding them through the process. An indication that these traders have interest in complying with tax remittance.

5.2.2 Cost of Outsourcing Audit Services on income tax compliance among SMEs

The summary of findings in auditing services indicated that auditing was a service that these traders were seeking from the auditors despite the associated costs involved in hiring the consultants. However, selected traders indicated that auditing services was quite an expensive affair. This was an indication that those who were able to afford the services were able to meet the requirements from the KRA regarding tax remittance and compliance. The findings revealed that as much as some small scale business owners failed to access the services of the accountants, they confirmed that the auditing services

were very important for their business. From the findings, it was a revelation that some of the traders were failing to provide accurate information for taxing purposes which reduced the number of tax payers with the ability to fully comply with tax policies.

5.2.3 Effect of compliance cost on income tax compliance among SMEs

The study established that tax compliance costs are the costs incurred by taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities. These are costs over and above the actual payment of tax and over and above any distortion costs inherent in the nature of the tax. It was established that that the costs required for hiring consultants are out of reach for business owners. Therefore, the analysis implied that quite a number of traders are unable to hire accountants who are able to provide accurate financial reports for enhancing tax compliance purposes. From the analysis, it was established that there are high costs of acquiring sufficient knowledge to meet legal requirements in tax. This implied that some of the traders are incurring high costs from consultants who provide consultancy services about tax information. Therefore, lack of proper involvement by KRA to provide information had forced the traders to seek outside which some occasions mislead the traders especially techniques of evading tax.

5.3 Conclusions

The study concluded that in filing procedures, compliance and audit functions still operate in a very labor intensive environment with spread sheets and hard copy files of regulations that are often in different filing cabinets or even different locations. As a consequence, one of the problems many firms face is the easy identification of applicable regulations to a particular business area or authoritative body for accuracy of filing.

Auditing Services, the study notes that audits expend valuable staff time and resources to investigate taxpayers who are ultimately found to be compliant. Additionally, auditors

often are unaware of the information that was used to initially select the case and may waste a great deal of time by focusing their audit research in the wrong areas.

The study concluded that in compliance cost, businesses owners were not aware that tax compliance cost can be a significant cost of operations and could decrease their profitability. The results can also be used as documentation to convince the authorities to review the complexity of the tax system in Kenya in order to lower the compliance costs for SMEs'.

5.4 Recommendations

5.4.1 Filing Procedures

There is need for the management at KRA to ensure that filing procedures are simplified.

The tax filing procedures should be simplified to the extent that even the least learned traders are able to operate the services without seeking professional services from external consultants. These should be considered appropriate to ensure that all the traders are able to comply with tax remittance.

5.4.2 Cost of Outsourcing Audit Services

The requirement on auditing services has been received by traders with mixed reaction, this is because, the service is considered quite expensive. Therefore, the KRA should come up with alternative way of authenticating the financial statements of the traders if auditing services will be considered an expensive service.

5.4.3 Compliance Cost

The study recommended that the traders should engage in expenses that can be sustainable. Therefore, in order to comply fully with tax remittance, costs such as auditing, training and other operational systems should be those that they are able to

manage in order to be able to prepare information that solely meets tax compliance purposes.

5.6 Suggestion for Further Study

The study had basically given attention on income tax compliance among the small scale manufacturing firms in Nairobi County. However, in order to have a study that is fully covered, additional studies should be undertaken on effect of taxation on business firm's performance. The study should address subject such as turnover taxes, value added tax income tax and corporation tax.

REFERENCES

- Abrie, W. and E. Doussy (2015), *Income tax compliance Obstacles Encountered by Small an Small scale enterprisess in Kenya, Meditari Journal of Accountancy Research Nairobi Kenya.*, Vol. 14, pg 66-74.
- Arthur Laffer, F. M. (1975). *Belief, Attitude, Intention and Behaviour: An Introduction to Theory and Research.* Ontario: Addison -Wesley Publication company.
- Al-Dmour, H. P.-S. (2016). Factors Affecting SME's Adoption of Internet Based Information Systems in Business to Business and the Value-Added Aid in organization's Performance. *Jordan Journal of Applied Science, Vol 14, Issue 1.*
- Ascher, W. (2015). *Risk, Politics and Business Reform: Great Reform in Developing Countries,* Duke University Press, Brussels, Germany.
- Assel R. (2014) *Normative appeals and tax compliance.* 3rd edition, Kent Publishing Company, Boston.
- Awadhi, A. M. (2015). Factors Influencing Adoption of e-government Services. *Journal of Software, Vol 4.*
- Bashein M. (2014). Determinants of tax payers, *How to Prevent Failures, In Management,* MIT Press, Brussels.
- Barclays Bank of Kenya. (2016). *Entrepreneurs Loan Scheme A Bank brochure.* Nairobi.
- Cameron, K. S., (2015). A Study of Organizational Effectiveness and Its Predictors. *A journal of Management Science, Vol. 32, pp. 84-112.*
- Cannon T. (2015), *Acceptance of electronic tax filing,* 3rd edition, AITBS Publishers, New Delhi.
- Choong, M.-M. L.-F. (2015). Motivators, Barriers and Concerns in Adoption of Tax Filing System: Survey Evidence from Malaysian Professional. Accountants. *American Journal of Applied Sciences, 562-567.*

- Desai, F. (2015). Perceived Usefulness, Perceived Ease of Use and User Acceptance of Information Technology in Tax Compliance roles. *MIS Quarterly* 13, 319-339
- Fu, W. C. (2014). Determinants of Taxpayers Adoption of electronic filing methods in Taiwan: An exploratory study. *Journal of Government Information*. K.R.A. (2014).
- Glen.I.D. (2013). *Determining the Sample Size: Program Evaluation and Organizational Development*, 2nd Edition, Florida: University of Florida, pp. 51-59.
- Hamzah, A. (2015). *A Perspective of Financial Management Practices in a Fast Developing Economy*. *A journal of Construction Management and Economics*, 1 March 2015.
- Holborn, M. & Langley, P. (2015). *Research Sociology: Themes and perspectives*, London: Collins Educational, London.
- Huber, G., (2014). Organizational Coordination and Performance in Accounting Information Systems: An Empirical Investigation. *The Accounting Review*, Vol. 6.
- Kamarulzaman, A. A. (2015). Adoption of Tax E-filing : A Conceptual Paper. *Africa Journal of Business Management-Vol 5*.
- Kangave, J. (2015). Improving Tax Administration: A Case Study of the Uganda Revenue Authority. *Journal of African Law*, 145-176.
- Kathawala M.(2015). *The theory of Contractual Incentives for Cost Reduction*. The Quarterly *Journal of Economics*.
- Kirk, J., & Miller, M. L. (2015). Reliability and validity in qualitative research. Sage Publications, Beverly Hills, Germany.
- Khayesi M (2016). *Struggle for Socio-Economic Niche and Control in the Manufacturing Industry in Kenya*, DPMN Bulletin: Volume IX, Number 2, May 2002.
- Kothari M. (2014). *Research Techniques*, 2nd Edition, Pearson Publishers New Delhi.
- Lall O.. (2014). Industrial Policy and Industrialization in Sub-Saharan Africa”, *Journal of African Economies*.
- Lemuria, E. & Carter, L. C. (2015). An Investigation of the Antecedents to Adoption from the Individual Taxpayers' Perspective. E-Service. *Journal*, Vol 7.74.
- Macharia M. (2015), *The role of social network and the state in the urban informal sector in Nairobi In selected economic development issues in eastern and Southern*, Business Week, Volume 47. pg 8.

- Mahadeo, J. D. (2013). Towards an Understanding of the Factors Influencing the Acceptance and Diffusion of E-government Services. *Electronic Journal of E-government Services*, 391-402.
- Ming-Ling Lai, S.-N. (2015). Tax Practitioners and the Electronic Filing System: An empirical Analysis. *Academy of Accounting and Financial Studies Journal*.
- Mkandawire N. (2015), *Thinking about Developmental States in Africa*, University of Nairobi, *Journal of Economics*. Vol 3 pg 11-14.
- Mutongi and Kenda (2013). *Entrepreneurs, Perceptions of small businesses Operations in Nairobi, 1970 to the Present*, Africa 76 (4) pg 549 -568.
- Mwonge, H. L. (2015). The Influence of Electronic Tax Filing System on Tax Compliance and tax Collection. *Academa.edu. National Tax Journal*, 62, 169-186.
- Price Water House Coopers (2014).
- Tomala M(2015). Survey and Analysis of Credit Programs for Small and Micro Enterprises in Kenya ACTS Publishers Nairobi Kenya.
- Wang, Y.-S. (2016). The Adoption of Electronic Tax Filing Systems: An Empirical Study. *Journal of Public Administration Research and Theory*, Vol 13.
- Wheeler. R J (2016). Perceptions of tax fairness and tax compliance: Retention Constraints in Kenya'. *A journal of Public Administration and Development*.

APPENDICES

Appendix I: Registered Light Manufacturing Firms

- 1) Awa Mechanical Fabricators
- 2) Aplex General Services
- 3) Ayego (E.A) Traders
- 4) Benmah Engineering Services
- 5) Bomaque Structural & Mechanical Fabricators
- 6) Brandmax Enterprises
- 7) Cadvision Mould Services
- 8) Comas Engineering Works And Fabrication
- 9) Community Shelter Works
- 10) Comroad Construction
- 11) Dadhley Industries
- 12) Die Mould Machinery
- 13) Dk Engineering
- 14) Doors (K) Enterprises Ltd
- 15) Elich Enterprises
- 16) Emjo Engineering
- 17) Equip Agencies
- 18) Fabricator Engineering And Mechanical Works
- 19) Femo Works
- 20) Filicon Enterprises
- 21) Fine Engineering Ltd

- 22) Gahir Engineering Works Ltd
- 23) Genetics Engineering
- 24) Geoworks
- 25) Global Link Consultants
- 26) Hurricane Ventures (K) Ltd
- 27) Industrial Mechanical Solutions
- 28) Jagaka Machine Tools
- 29) Joppa Enterprises
- 30) Joskein Electro Services
- 31) Kiesta Industrial Technical Services
- 32) Magnum Engineering & General Contractors Ltd
- 33) Makiga Engineering Services Ltd
- 34) Marshall Fowler (Engineers) Ltd
- 35) Maulex Industrial Solutions
- 36) Mfena Industrial Supplies
- 37) Mozel Motors
- 38) Muharata Food Co. Ltd
- 39) Multi-Dimensional Engineering
- 40) Nyagah Mechanical Engineers
- 41) Panorama
- 42) Pewam Engineering
- 43) Plansteel
- 44) Plant Makers Limited
- 45) Ranges Electrical And Machineries
- 46) Reftech Engineering
- 47) Rope Engineering Ltd
- 48) Sagoo Engineering Works Ltd
- 49) Seric Engineering Works & Services
- 50) Spry Engineering Co. Ltd
- 51) Tekala General Services
- 52) Tojan Plumbers
- 53) Top Link Electro Services

54) Universal Machining Solutions

55) Wiems Mechanical

Source: Ministry of Industrialization, 2018

Appendix II: Questionnaire

The purpose of this research is to collect data on “**factors affecting income tax compliance among the small scale manufacturing firms in Nairobi County, a survey of manufacturing firms in Kariobangi Light Industry**”. The information given is for academic purpose only and would be treated very confidential.

SECTION I: BACKGROUND INFORMATION

1. Gender

Male []

Female []

2. Highest level of education attained

Secondary []

College []

University []

Other qualification []

3. Work Experience

Below 1 year []

1-6 years []

7-11 years []

Above 12 years []

SECTION II: FILING PROCEDURE

4. Chose the statement that you agree with, showing the influence of filing procedure on income tax compliance among the small scale manufacturing firms in Nairobi County.

The scale: Where 1 - Strongly Agree, 2 - Agree, 3 - Indecisive, 4 – Disagree, 5 - Strongly Disagree

Narrations	Strongly Agree	Agree	Indecisive	Disagree	Strongly disagree
Tax filing procedures is tedious and time consuming					
Do you seek professional assistance to help in tax filing					
Online filing is highly preferred					
Compliance functions operate in a very labor intensive environment with spread sheets and hard copy files of regulations					
I experiences tax filing errors preventing me from accurately meeting income tax					

compliance					
------------	--	--	--	--	--

SECTION III: AUDITING SERVICES

5. Chose the statement that you agree with, showing the influence of auditing services on income tax compliance among the small scale manufacturing firms in Nairobi County.

The scale: Where 1 - Strongly Agree, 2 - Agree, 3 - Indecisive, 4 – Disagree, 5 - Strongly Disagree

Narrations	Strongly Agree	Agree	Indecisive	Disagree	Strongly disagree
The business always seek external auditing services for tax compliance					
Auditing services are very necessary for tax compliance					
The costs prevents the business from seeking auditing services					
There are cases of manipulation of financial reports to affecting tax compliance					

Auditors often are aware of the information needed to be disclosed for tax compliance					
---	--	--	--	--	--

SECTION IV: COMPLIANCE COST

6. Chose the statement that you agree with, showing the influence of compliance cost on income tax compliance among the small scale manufacturing firms in Nairobi County.

The scale: Where 1 - Strongly Agree, 2 - Agree, 3 - Indecisive, 4 – Disagree, 5 - Strongly Disagree

Narrations	Strongly Agree	Agree	Indecisive	Disagree	Strongly disagree
Costs of developing filing system for taxation is very high					
The costs required for hiring auditors are out of reach for business owners					
The administrative costs are solely incurred by the business.					
There is high costs of acquiring sufficient					

knowledge to meet legal requirements in tax					
tax compliance cost is a significant cost of operations and decreases their profitability					

Appendix III: Work Schedule

ITEM	MONTHS				
	July	August	September	October	
Proposal Formulation (Planning)	↓				
Proposal Development		↓			
Data Collection (Field work)			↓		
Data compilation				↓	
Data Analysis, Presentation & Project DEFENCE Submission				↓	

Appendix IV: Budget Plan 2019

DESCRIPTION	KSHS
1. Secretarial Services:	
Typing the proposal	2,000.00
Typing the final report	1,500.00
Photocopying the questionnaires	1,500.00
2. Stationery	
Writing materials	2,500.00
Duplicating papers	500.00
Pens and pencils	300.00
3. Traveling	
To pre-test questionnaires	500.00
To administer questionnaires	800.00
4. Binding expenses	
Binding the proposal	80.00
Binding the final report	500.00
5. Computer expenses	1,000.00
TOTAL	11,180.00