

**Factors Affecting Tax Compliance among Small and Medium Enterprises
in Embakasi East Region, Nairobi, Kenya**

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for the Post Graduate Diploma in Tax Administration of the Jomo
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DECLARATION

Declaration by candidate:

I declare that this project is my original work and has not been presented for a degree in any other university.

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ABSTRACT

Revenue collection defined as Tax is a major source of the government revenue. However, tax compliance among traders in the informal sector is largely questionable. The core objective of this study is therefore to provide a theoretical analysis of the factors that may be contributing to reduced tax compliance among traders in informal sectors in Kenya. It sought to determine whether SMEs tax Education, tax Technology and Tax rates influence tax compliance among Small and Medium Enterprises in Embakasi East, Nairobi. With an aim of investigating the main hindrance to optimal tax administration and compliance among the informal, sector in Kenya. In order to achieve this, the researcher used a mixed methodology approach, which incorporated a cocktail of various designs that included descriptive design, stratified and simple random design to define not only the target population but also the sample size. The data was collected using questionnaires; administered to a sample population of 90 respondents drawn from Embakasi East sub-county. While, the secondary data was obtained from; KRA reports, publications, journals published and unpublished thesis. The data collected was later coded, analyzed using Statistical Package for Social Scientist and presented in form of charts, graphs and frequency tables. The findings indicated that there is a positive correlation SMEs tax Education, tax Technology and Tax rate with tax compliance. As such Kenya Revenue Authority should institute sustainable SMEs tax compliance measures upon consultation with taxpayers to establish the most suitable tax model. It should also endeavor in carrying-out periodic tax awareness campaigns, to empower the capacities of taxpayers and clear some misconstrued tax perceptions they believe in. Inferences indicated that the SMEs sector has immense potential to alleviate KRA revenue shortfalls if and only is harnessed fully. This can be achieved through carrying out Tax research among other approaches. Further collinearity analysis was done and the results revealed that tax technology had a positive and significantly related to tax compliance ($r = 0.341$, $p\text{-value}=0.00<0.05$). Further collinearity analysis was done and the results showed that tax rates had a positive and significantly related to tax compliance in Kenya ($r = 0.298$, $p\text{-value}=0.00<0.05$). The average overall standard deviation of 0.72 infers that 68% of the response was spread within one standard the taxpayer education had positive and significantly related to tax compliance ($r = -0.148$, $p\text{-value}=0.00<0.05$). The study recommends that Tax education should be rigorous to enlighten taxpayers about their duties and the role of tax in national development as they have a right to know how the national and county governments spend their taxes. There is a need for Large-scale structural reforms such as simplification of tax administration by ensuring the system is simple to use when registering as a taxpayer, filing the returns and payment of the same. Additionally, there is need of multi-stakeholder involvement in not only formulation but also in implementation of tax technology and There is a need for Large-scale structural reforms such as simplification of tax administration by ensuring the system is simple to use when registering as a taxpayer, filing the returns and payment of the same. Additionally, there is need of multi-stakeholder involvement in not only formulation but also in implementation of tax technology...

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ACRONYMS AND ABBREVIATION

CIT	Corporate Income Tax
ETR	Electronic Tax Registers
GDP	Gross Domestic Product
GOK	Government of Kenya
KIPPRA	Kenya Institute of Public Policy of Research and Analysis
KRA	Kenya Revenue Authority
KSH	Kenya Shillings
MPT	Marginal Propensity of Tax
PAYE	Pay as You Earn
P.I.T	Personal Income Tax
SMEs	Small and Medium Enterprises
TIN	Tax Identification Number
VAT	Value Added Tax

DEFINITION OF TERMS

Micro, Small and Medium Enterprises (MSMEs) (2016) MSMEs is defined

according to the number of employees. The report categorized MSMEs into three different types: micro (1-9 employees), small (10-49 employees) and medium (50-99 employees) sized establishment (KNBS, 2016)

Tax addition is the deliberate misrepresentation of the true state of tax affairs to the

tax authorities to reduce their tax liability. It entails declaring less profit, income or gains that amounts to either overstating the expenses (James & Alley, 2014).

Tax administration is defined by US federal tax as that act of administration,

management, conduct, direction and supervision of tax revenue obligation. It is usually executed by tax enforcement officers who collect and single out those that fail to honor their tax obligation (Eriksen & Fallan, 2016).

Tax compliance refers to the degree to which taxpayers comply with tax rules and

regulations as stipulated by the laws of land. Tax compliance requires taxpayers to declare, file and pay their tax obligations as and when they fall due (Eriksen & Fallan, 2016; Marti, 2010).

Tax evasion on the other hand is defined by Holban (2010) as an attempt by a

taxpayer to evade tax through illegal means and is punishable in law. Both tax evasion and avoidance amounts to non-compliance as it is unfavorable to tax authorities.

Tax Education refers to the level of awareness of taxpayers with regard to their tax

duties and obligation. Generally, citizens have limited education with regard to their tax obligations. Traders with limited tax education should hire competent tax experts (Hendy, 2003).

CHAPTER ONE

INTRODUCTION

1.1 Research Background

Tax compliance is defined as adhering to all the laws of the country as it pertains to the filing registering and paying of taxes due on time. This involves “taxpayers’ willingness to comply with tax laws, declare correct income, claim the correct deductions, relief and rebates and pay all taxes on time” (Pail and Mustapha, 2011) According to OECD (2012) many voluntary compliances is possible from the SMEs if there are simplified tax laws and proper tax administrations. Tax compliance is connected to citizenship and collective responsibility. The tax administration must facilitate compliance by making sure that those who should be in the system are in the system and that they comply with the tax requirements. First, if taxpayers are required to register, the registration process should be as easy as possible. Systems must be in place to identify those who do not register voluntarily. Tax authorities should adopt an appropriate unique taxpayer identification system to facilitate compliance and enforcement. Second, tax authorities need a process for determining tax liabilities by either administratively or by some self-assessment procedure.

1.1.1. Global perspective

Globally, (SMEs) small and medium-sized enterprises stand at around 90% of all Enterprises. SMEs make the largest portion of the economies and thus large contribuion to both revenue generation and employment. They are also strongly heterogeneous: across and within industries and sectors; in their innovation behaviors; and in their profitability and growth potential.

Importantly, SMEs also generate a significant share of all taxable business income in most economies (OECD, 2015).

Report of the World Bank (2007), SME includes those enterprises that are either formally registered business, with an annual turnover of between Kenya Shillings 8 to 100 million, with an asset base of at least Kenya Shillings 4 million or employ between 5 to 150 employees. The SMEs accounts contribute to 35-50 per cent of global Gross Domestic Products. SMEs are most firms in many economies in the world (Venter & Clercq, 2007) for instance on average over 90% of the enterprises in developing countries like in Africa (Cynthia, *et al.*, 2009).

Tax reforms are part of tax policy aims to enhance compliance and create public perception of the fairness of the tax laws hence impacting positively on compliant businesses. SMEs' tax reforms specifically include enacting special type of tax regime which is different from the normal tax regimes for large enterprises and administrative reforms. The special tax regimes for the SMEs includes granting of tax exemption as incentives for instance in India where agriculture is exempted from the income tax (Arachi & Santoro 2007). SMEs are taxed under presumptive tax like turnover tax based on a percentage of gross or adjusted net income of the enterprises or progressive based on SMEs' sectors. Turnover tax has been used Ukraine and Bolivia based on a standard flat rate tax on sales less limited expenses and in Uganda where it Holban (2010) defined a good tax system as that one that is rational, economical yet overly efficient. He further added that an efficient tax system should not suppress taxpayers but encourage them to honor their tax obligations. This is likely to reduce their chances of evading taxes. Moreover, the government conduct influence taxpayers' compliance; if the government utilizes public funds well there is a likelihood of increased compliance, however if the latter holds there shall be reduced tax compliance.

There exist some developed economies like Scandinavian countries which have efficient tax system that encourages taxpayers to honor their tax obligation. It should be understood that if taxes are well designed they can encourage voluntary tax compliance among SMEs.

Interestingly, there has been a growing concern that SMEs are not efficiently taxed as they should be. The tax authorities however should not overdo it as it can frustrate small enterprises existence due to high operational costs (Marti, 2010) Uneven tax enforcement can reduce competitiveness of businesses and hamper voluntary compliance. Government intervention should thus strike a balance between achieving its tax collection targets and not hindering growth of SMEs that provide employment to significant numbers of employees. Therefore, tax systems should be simple, consistent, flexible and predictable so as to lower tax administration and compliance costs that in turn shall reduce the uncertainty faced by taxpayers as well as encourage voluntary compliance (Mohd, 2010)

There is increased tax compliance among developed economies as opposed to developing economies. Tax compliance is defined by James & Alley (2014) as the fulfillment of one's tax obligation voluntarily, completely as and when they fall due. It has been established that taxes adversely affect SMEs in most countries and thus caution should be exercised. It has been established that tax burden falls heavily on the small and medium enterprises who in most cases have no means or structure to enable it comply fully. Their supposedly small size and informal business model they adopt could be the reason as to why they feel incapacitated. They thus view tax compliance as an additional burden that drains their profitability. Most of SMEs have limited access to financial products as they are deemed risky by banks due to their informal business model. Most SMEs owners lack adequate expertise to run their business as well as complying with complicated tax regulations. Interestingly, they do not involve services of experts as they view it as unnecessary additional cost. This opens a doorway to tax avoidance, tax fraud and hampers economic growth (Farzabod, 2010).

1.1.2 Tax Compliance among SMEs in Africa

Tax compliance among small and medium enterprises in Africa has been slow due to confluence of factors among them lack of adequate expertise on matters consistent with tax regulation and compliance, also it emanates from the fact that there is implied discrimination with regard to cost of compliance and tax rates. In most developing economies with weak governance, there is an increased non-compliance among taxpayers as they are demotivated by the fact that the taxes they remit are embezzled through scandals (Farzabod, 2010). All small and medium enterprises are subject to a flat tax rate despite the fact that some are big and others are small. Tax authorities needs to put that in a perspective or otherwise there will be rampant cases of noncompliance. The tax rates should be based on one's ability to pay.

Those SMEs with large capital base should be subjected to a high tax rates and the latter should pay less; as it is the case with Pay as You Earn. Empirical evidence suggests that perceived unfairness in the tax administration increases the probability that taxpayers are likely to evade tax. It should also be known that reducing perceived tax burden and compliance costs increases SMEs disposable income that ease up their abilities to remit the tax to the government (Vassal, 2008).

SMEs in Africa operate in an environment that is not highly regulated and as a result they are exposed to multiple taxes, that is, from import duty, VAT, license and permit fee. This exerts so much pressure on their business operation and survival lowering their tax compliance appetite. Masato (2009) asserted that complexity in tax regime negatively affects its administration and compliance, as most SMEs are likely to explore alternatives with lesser tax burden. Tax authorities in Africa have failed to establish the root cause of non-compliance from the taxpayers' perspective.

For instance, in Egypt, SMEs are taxed under a uniform tax (or patent) on as business segment irrespective of the size or turnover of the individual enterprise or indicator-based systems which use external indicators as proxy for business income (also used in Italy, Spain, and Argentina) (IFC, 2007). Further, taxation of SMEs can be based on agreement between taxpayer and the tax administration as used in Syria (OECD, 2012). However, according to Mage, (2011) despite these SMEs tax reforms, most developing countries where SMEs sector account for such a significant percentage of GDP (average 41%) continue to be tax non-compliance. Therefore, tax authorities in Africa should review their tax regime as a poorly executed tax system leads to low efficiency, high collection charges, time wastage and reduced tax-compliance among most tax payers (Farzabod, 2000). Existing empirical evidence critically shows that small and medium enterprises are adversely affected by tax-compliance costs. The hardest hit is those scale of operation is small. Their argument is that they should not be placed in the same footing with their counterparts which in most cases have the means. There should be a level playing ground for all small and medium enterprises.

Tax authorities should constantly involve all stakeholders before they implement any tax law so as to have an intuitive understanding of the applicability of those laws.

They should acknowledge that most large companies begun like SMEs, and should thus encourage them to grow, as that shall generate more revenue in future to the government. Therefore, SMEs ought to be nurtured as they are the cornerstone of indigenous entrepreneurship that has the capacity to stimulate economic vibrancy and provide employment opportunities to most job seekers.

Developing economies should thus create conducive environment for SMEs as they are of great significance to microeconomic stability of any economy. They should address problems and challenges undermining their existence such as perceived tax burden. The government should

be at the forefront of mobilizing domestic savings for investment, come up with favorable laws that enable SMEs to access finances from lending institutions, as well as, encouraging foreign direct investments that are likely to generate more business and employment opportunities that lower poverty levels to significant levels.

This is likely to enhance personal income and advancement in technology (Smatrakaley, 2006). SMEs role in economic vibrancy should not be overlooked as it has potential to open up remote regions as compared to large establishments that are concentrated in major towns. They ensure equitable distribution of wealth among households. For this reason, ideal and considerate tax policies need to be adopted so as to ensure voluntary compliance and efficient utilization of resources other than strangle entrepreneur initiatives that they so much seek to safeguard. As the revenue generated through taxation of taxpayers is an important stream of income for government. An economy will be at stand still if individuals and businesses fail to remit their taxes as and when they are due. There would be no passable roads, running water, sewerage or power, thus tax compliance among taxpayers should be given the seriousness it deserves.

1.1.3 Kenya perspective

In Kenya, Micro, Small and Medium Enterprises (MSMEs) play a vital role in the economic development of Kenya in a number of ways including; by increasing competition, fostering innovation, generating employment and an important source of goods and services. According to Kenya National Bureau of Statistics, (2016) MSMEs was defined according to the number of employees. The report categorized MSMEs into three different types: micro (1-9 employees), small (10-49 employees) and medium (50-99 employees) sized establishment. However, the tax authorities have been unable to harness it; as it constitutes a sector that has not been harnessed fully in many countries (Marti, 2010; Hanefah, Ariff & Kasipillai, 2012).

Dominance of SMEs in Kenya just like other developing economies do exist and are usually operated by entrepreneurs with a keen interest in entrepreneurship. Kenya's 2017 overall GDP is projected at 7.4% with small and medium enterprises contributing 3%. They constitute 98% of all the businesses in Kenya and create 30% of jobs annually (National Economic Survey, 2017). The Kenya informal sector comprises of small and medium enterprises that are family owned and usually have no well-defined structures. Under the micro small and medium enterprises Act of 2012: a micro enterprise is that which that has an annual turnover of Ksh. 500,000 and employs less than 10 employees. On the other hand, a medium enterprise has an annual turnover ranging from 5,000,000 and 800,000,000 that employs between 50 to 99 employees (African Review, 2017).

Without a doubt, the Kenyan economy is largely dominated with small and medium enterprises that engage in both retail and wholesale business. The most common SMEs are Mobile money banking agents, salons, barbers, Juakali artisans, shops, technology-based companies, bakery, wood, metal, import and export businesses works among others.

However, despite the immense role they play to the economy, SMEs in Kenya are succumbing to various challenges. According to Deloitte Kenya Economic Outlook (2016), SMEs growth is hindered by limited market access, poor infrastructure, business turbulence, inadequate knowledge and skills. This is well articulated by the National Economic Survey (2017) that noted that most SMEs do not celebrate their second and fifth birthday respectively. This raises the question on the sustainability of those SMEs in long run. Perhaps because of their informal and reflective business model that does not embrace research and development. is likely to stimulate growth of taxpayers' businesses. Taxpayers should be designed in such a manner that they do not directly and negatively influence voluntary compliance. Yaobin (2007) concluded that an efficient tax regime minimizes the cost of tax administration and compliance.

There should be increased awareness on the tax education among taxpayers so as to increase tax awareness. The tax Authority in Kenya should periodically carry out research to establish possible bottlenecks that are likely to face enforcement of tax laws among SMEs in Kenya. Tax regime in Kenya is not favorable to the growth of SMEs as they have not quite understood of what constitute it (Kasipillai, 2005). Most SMEs in Kenya are registered under business name while some are registered as limited companies though bear informal structures. Most SMEs literally have no separate legal entity and as a result, their lifespan depends to that of their respective owners (Saira & Yoke, 2012; Vasak, 2007).

1.1.4 Embakasi East Sub County

Embakasi East Sub County is one of the seventeen constituencies found in Nairobi. A thriving business hub shelters thousands of SMEs. Most of the trading activities take place in Pipeline, Donholm, Imara Daima, Utawala, Tassia among others trading centres. Its vibrancy has seen many investors flock this sub-county. However, it has been difficult for tax authorities to harness the revenue due to the fact that there are no well-defined business structures (Nairobi County, 2017). Perhaps because most of SMEs here are sole-proprietorship that is family owned. Embakasi East sub-county is a cosmopolitan town with people from all walks of lives.

1.2 Statement of the Problem

Governments rely on tax to finance its operations which include public infrastructure such as roads, hospitals, schools, ports among other public goods. However, it cannot achieve this mandate if its tax revenue stream is ineffective. It must institute contingent measures to seal loopholes of revenue leakages due to untapped sectors of the economy such as SMEs and rental business. Kenyan Government enacted tax reforms like turnover tax and KRA tax administration to bring the SMEs sector into taxation into tax bracket. According to Kenya Parliamentary Budget Office (2011) SMEs make up of 96% of all registered businesses in

Kenya, contribute 34.3 per cent to GDP, and with tax potential of Kenya shilling 79 billion but actual collection is less than one billion.

As per KRA (2015) report total revenue collected from the TOT system in 2015 was Kshs. 221 million. This was below target of Kshs. 645 million in 2015. On TOT recruitment of new taxpayers, the performance has been below 50% on average. In year 2008/09, the number of SMEs which were registered with TOT was 10,605 against a target of 18,347. Between July 2009 and March 2015, 2,890 SMEs had registered with the TOT against a target of 6,928. As at mid-2015, only 435 SMEs had adopted the tax system out of a possible 1405 SMEs in Industrial area representing a 31% uptake of TOT (KRA, 2015). This is a problem to the government in its endeavor to ensure that there is sufficient revenue to support its operations

KRA has been falling off its target from one period to another. According to Treasury, report, KRA fell short of its revenue collection target by a whopping Kshs.205 Billion; as of May, 2017 (Guguya, 2017). This was the case in 2016, when KRA had a revenue shortfall of Kshs.527.88 Billion against a target of Kshs.1.21 Trillion that had been set by Treasury. The poor revenue collection was a continuation from successive quarters; largely attributed to decline in payroll taxes and VAT. There was a deficit in Pay as You Earn and VAT in the tune of Kshs. 26B and Kshs.15.9B respectively (,Kitili 2015; Odhiambo, 2016). Recent KRA report also indicate that the Kenya Revenue Authority is likely to miss its 1.44 trillion annual targets in the financial year 2017/2018; as at 31st December, 2017 they had only collected 809.7 billion due to depressed economic environment arising from the long electioneering period, shrinking Pay as You Earn returns with increased layoffs, and reduction in SMEs earnings.). In the light of above, there is a need to assess the determinants of tax compliance and administration among the informal sector that for so long has not been tapped fully. Fully tapping into the SME sector will bridge the shortfall in revenue collections. The authority over the recent past has invested heavily tax systems on the past few years such as iTax systems, CMS and electronic cargo

system. Despite such an investment the compliance level is relatively low, especially in small and medium enterprises in Kenya (KRA, 2015)

Available studies have been undertaken to explain small and medium enterprises and tax compliance. For instance, study done by Mwanaisha (2013) sought to establish the effect of taxpayer education on voluntary tax compliance, among Small and Micro-Enterprises (SMEs) in Mwanza City-Tanzania.

Makewa (2015) investigated factors influencing tax compliance on SME in Nairobi County. The finding revealed that SME will only comply when the government system like hospital, schools, and road works efficiently and they can access them for free. The study, though related there was a need for another study since the focus of the study was wide and therefore a more specific study like establishing the determinant of SMES on tax compliance was imperative. This study is therefore aimed at providing an intuitive understanding of how KRA can tap into the Micro, Small and Medium Enterprises potential without hampering their growth while ensuring sustainable tax compliance. The study seeks to examine the determinants of tax compliance in Embakasi East area Nairobi region.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of this study was to establish the factors affecting tax compliance among small and medium enterprises in Embakasi Sub-County.

1.3.2 Specific Objectives

- i. To assess how the level of tax Education influence tax compliance among SMEs in Embakasi East Sub-county.

- ii. To find out the extent to which tax Technology affects tax compliance among SMEs in Embakasi East Sub-County.
- iii. To determine Tax Rates influence tax compliance among SMEs in Embakasi Sub-County.

1.4 Research Questions

- i. How does the level of tax Education influence tax compliance among SMEs in Embakasi East Sub-county?
- ii. To what extent does tax Technology among SMEs in Embakasi East Sub-County influence sustainable tax compliance?
- iii. Do Tax Rates influence tax compliance among SMEs in Embakasi East Sub-County?

1.5 Significance of the Study

This research shall be of great significance to a number of stakeholders as outlined below:

1.5.1 Kenya Revenue Authority (KRA)

Kenya Revenue Authority shall immensely benefit from the finding of this research as it shall unearth some of the underlying causes of non-compliance and float some sustainable remedy that shall form basis of policy making. The research shall further inform KRA's decision on how to best handle the small and medium enterprises, who in most cases feel that they are being extorted.

1.5.2 Tax Payers

This research shall go handy, in enlightening the public of their duty to pay their taxes as and when they are due. It shall clear their erratic perception with regard to tax administration and enforcement. It shall also inform them about the history of Kenya tax regime and how it has evolved over time and show them some of the benefits that accrue with it, if well implemented.

1.5.3 General Public

The general public shall immensely benefit from the findings of this research; as it shall increase their awareness on tax administration and penalties that can be lodged against them should they fail to comply. In addition, the public shall learn more about, the challenge that faces KRA enforcement officers as they perform their duties, and perhaps the public may ease them restrain on the same in future.

1.5.4 Policy Makers

Kenya policy makers such as the legislators and owners of the respective small and medium enterprises shall benefit from the findings of this research as it shall enlighten them of the reality on ground and how it can be managed. The business owners shall learn the importance of maintaining a complete set of records to assist them be in a position to account for their tax obligation among other expenses. The research endeavored in identifying the key hindrance in revenue collection and floating suggestions on how to overcome these challenges.

1.6 Scope of the Study

This research adopted a descriptive research design which sought to establish the key determinants of tax compliance among small and medium enterprises in Embakasi East, Kenya. The researcher used stratified sampling design by dividing the population into various strata that include Upper Savanna, lower Savanna, Embakasi, Utawala and Mihango and using simple random to select an appropriate sample of 75 small and medium enterprises.

1.7 Limitation of the Study

The research had some challenges which included;- some of the respondents shied away from participating in the research for fear of victimization by Kenya Revenue Personnel in future, to overcome this, the researcher explained to the respondents that their identity remained

anonymous and data collected therein was exclusively used for academic purpose. The researcher strictly adhered to the code of ethics. The researcher also encountered some participants who were a bit hesitant and skeptical of the motive behind this research; to overcome this hurdle the research explained the benefits accruing from it and the possible research dimensions and ethical considerations outlined in the document accompanying questionnaires.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Literature review entails the review of other literatures associated with determinants of tax compliance among SMEs. It states the theories underpinning this research as well as theoretical background of this study the conceptual framework used in assessing the relationship between dependent and independent variables. Related empirical review was discussed in details. Further, Critic of existing literature that have been advanced by different scholars was also discussed at length. In conclusion summary was drawn from this review of literature. And the research gap was highlighted.

2.2 Theoretical Review

Over the years, a number of theories have been floated with regard to how well to improve tax collection, tax administration and tax compliance. There have been diverse theories floated on the best tax administration practice. The study was influenced by the following theories which have been put across by various scholars with regard to determinant of SME'S and tax compliance in society. Deterrence theory. Psychology theory and ability to pay theory. Some theorists believe that the best way is to increase the penalty while some believe is to increase public confidence and tax awareness

2.2.1 Deterrence Theory

Proponents of deterrence believe that people choose to obey or violate the law after calculating the gains and consequences of their actions. Overall, however, it is difficult to prove the effectiveness of deterrence since only those offenders not deterred come to the notice of law enforcement. Thus, we may never know why others do not offend.

This theory purports that economic motives and trade on the probability that their actions will not be detected influence taxpayers. They assess the situation to determine whether they have an option to pay or evade tax. Taxpayers are constantly looking for opportunities to evade tax. Some overstate their expenses while others reduce their profit before tax all in the name of paying lesser tax (Hanefah, Ariff & Kasipillahi, 2012).

In the informal sector for instance, some unscrupulous traders close their shops to elude tax collectors. In order to deter such traders from desisting to pay taxes, punitive penalties should be instituted. Increased tax penalty deters them from not paying taxes as and when they are due (Braithwaite, 2007).

2.2.2 Psychology Theory

This theory explains that taxpayers are influenced by psychological factors. This theory suggests that a taxpayer may be willing to pay his/her tax obligations even when the probability of being detected is low. It is deeply entrenched on one's morality unlike the deterrence theory that emphasizes the need to coerce taxpayers for non-compliance. It emphasizes the need to change one's attitudes towards tax systems; through tax awareness education (Hendy, 20013; Eriksen & Fallan, 2006). Perception of an ethnic group being treated unfairly, and tax education. The study did not assess a number of possible determinants of tax compliance and therefore there is need to expand the variables. Cummings (2007) supports the theory in his study where he said taxpayers can feel morally justified in evading taxes if they feel that the quality of public goods and services are unsatisfactory. In most economies, tax evasion rate is low when the provision of public goods and services is satisfactory. Taxpayers will end up complying with their tax obligations if they feel that their government is honest, democratic and participatory and also if the taxpayers feel they play a meaningful role in governance. The theory is crucial in this study since explains how moral and ethics can play a role for an

individual to be tax compliance or not. This will help the researcher to understand how small and medium enterprises perceive the usefulness of paying their tax liability.

2.2.3 The Ability to pay Theory of Taxation

A Swiss philosopher Jean (1712 - 1778) advanced this theory. The French political economist Say (1767-1832) and the English economist Mill, (1806-1873). This theory states that the taxation should be levied according to an individual's income or ability to pay and is the basis of progressive tax where the tax rate increases by the increase of the taxable amount (Jones et al, 2011). This theory is indeed the most equitable tax system for people with greater income or wealth and can afford to pay more taxes should be taxed at a higher rate than people with less individual income tax and has been widely used in industrial economies. The basic tenet of this theory is that the burden of taxation should be shared by the members of society on the principles of justice and equity and that these principles necessitate that the tax burden is apportioned according to their relative ability to pay.

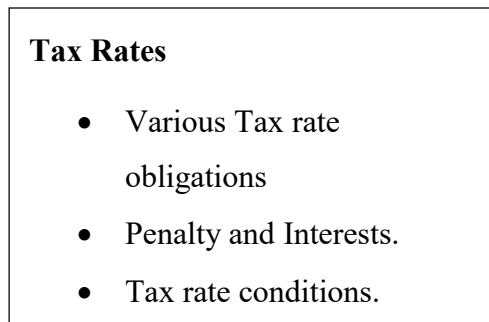
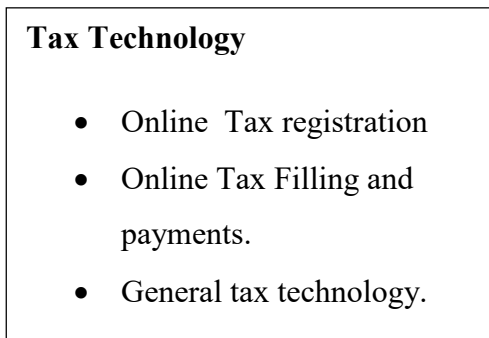
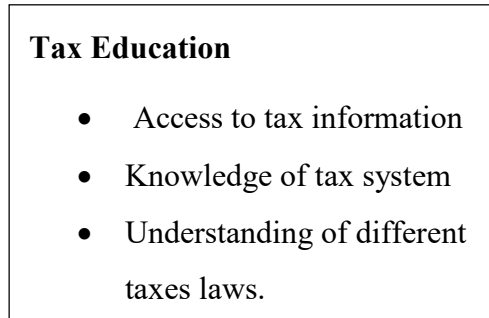
(Chigbu, and Ebimobowei, resonate with this theory (2012) and offered further suggestions such as taxpayers of small and micro enterprises should pay unconditionally and according to their paying capacity This theory falls relevant to the study as majority of taxpayer in small and micro enterprises on the bracket of TOT tax, which is simpler and cheaper since the tax is levied on the total turnover tax which is 3% which is filed and paid on a quarterly basis. This is related with the study above where compliance in small and micro enterprises is an issue under investigatio

2.3 Conceptual Framework

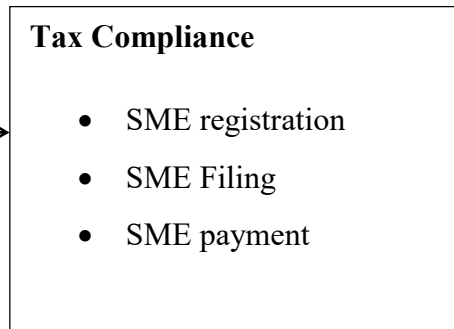
This study conceptualizes that tax compliance among small and medium enterprises could be influenced by SMEs tax Education, SMEs tax technology, and SMEs Tax Rate. Therefore, the

aim of this research is to assess the magnitude and the nature of this relationship, as illustrated in figure 2.1

Independent Variable



Dependent Variable



2.3 Empirical Review

Many Tax authorities across the world pay high attention to the SME'S tax compliance since they constitute a huge percentage of business in the world. There are several studies on factors affecting SMES and tax compliance. For examples, Atawodi (2012) in his study on factors that affect tax compliance among SMEs in Nigeria. They found out that tax rate is the main

challenge facing SMEs. The high tax rate mostly aids non-compliance and affect the growth of SMEs as most tend to stagnate in the informal sector. The findings resonate with another study carried out in Ghana by Carroll (2011), who found out that the amount of taxes paid had an adverse effect on the wellbeing of taxpayers. The respondents reported a decrease in after tax profits after paying taxes and some felt their willingness and ability to cater for their families was adversely affected by the amount of huge taxes they were paying Carroll (2011).

Tehulu and Dinberu (2014) found that tax compliance is higher in tax systems with low power of authorities when providing complete transparency on public expenditures and when taxpayers are given the possibility to decide on the use of their taxes. This suggests that tax compliance is influenced by tax education and budget spending. According to Paili (2010) taxpayers' education and awareness on taxes plays a pertinent role in determining of taxpayers' compliance behaviour. He suggested an adoption of an effective continuing education and monitoring programs to ensure the taxpayers have a reasonable knowledge and understanding of tax issues. This situation must have spearheaded by tax authorities by creating awareness and changing attitudes of taxpayers because of tax education to be effective it depends on honesty, acceptance and readiness of taxpayers.

The study yielded such results because the quality dimension of tax performance has been considered, which has been neglected by many previous authors.

A study by Tusubira & Nkote (2013) on Tax policy and the Growth of SMEs, found that small and enterprises play a very important role in the development of the Nigeria economy, making up about 97% of the entire economy. The research work sought to establish if any, relationship exists between the growth of SMEs and the tax policy in Nigeria. It was found that most SMEs surveyed were faced with the problem of high tax rates, multiple taxation, complex tax regulations and lack of proper enlightenment or education about tax related issues. Data was

collected from 107 respondents and analysed using spearman's Rank Correlation which measures the strength of association between two variables. Although there was a general perception that tax is an important source

The tax authorities should endeavor in carrying periodic tax audits to business entities with erratic tax tendencies (Khalif, 2017). They should deduce the reasons as to why some entities fail to comply and enlighten them on the possible penalties and benefits that arise from timely compliance. In the past it has been revealed that the relationship between enforcement officers and taxpayers has been adverse owing to the fact that some taxpayers feel demotivated to pay taxes due to massive misappropriation of public funds by those in various governments. Therefore, to alleviate this mistrust the taxpayers ought to be convinced that the taxes they remit help in improving their livelihoods (Deloitte Economic Outlook, 2016).

2.4.1 Tax Education.

This is defined as the level of tax knowledge and awareness among taxpayers; it is a process by which taxpayers become aware of tax technology; tax education is an important factor that if well used can result to increased tax compliance.

As it makes taxpayers understand the tax requirements that include timely filing of returns and remitting their tax as and when it falls due. Ideally, most citizens have scanty information with regard to tax requirements and penalties (Holban, 2010; Marti, 2010). Perhaps, they are ignorant of the same. Therefore, taxpayers with scanty information with regard to tax compliance they should seek services of tax and accounting experts or otherwise they shall have to pay punitive penalties. The revenue authorities should periodically hold seminars, workshops and road shows to educate the public on tax compliance matters (International tax dialogue, 2007). Empirical studies suggest that increased public awareness may encourage citizens to fulfill their financial obligation, report correctly and remit their taxes in a timely manner (Mansor, Tayib & Yusof, 2015).

Since most taxpayers do not have an understanding of the nature and scope of the tax regime, we expect to see intensive tax education sessions conveyed by the tax authorities. There have been cases of double taxation that affected some SMEs who despite having paid for their licenses to the federal government were forced to pay for taxes by County enforcement officers. Interestingly, some paid chiefly because they did not have ample tax education. On the other hand, those who did not comply felt that the County governments were burdening them with punitive taxes. Some ought to migrate to other counties with tax incentives. Most theorists theorize that knowledge of taxation can influence perceived tax fairness among taxpayers. From the foregoing, it is observed that tax education plays an important role in enhancing tax compliance (Bautigam, Fjeldstad & Moore, 2015; Erikensen & Fallan, 2006).

The influence of tax education has been assessed by various researchers, who have established that tax compliance is related to their ability to understand taxation laws and their willingness to honor their financial obligation as and when it falls due (Pail, 2010; Weichenrieder, 2007). Taxation education enlightens taxpayers about their duties and the role of tax in national development as they have a right to know how the national and county governments spend their taxes.

According to Singh and Bhupalan (2001) increased cases of corruption can reduce taxpayer's willingness to pay their taxes; after all, their monies shall be misappropriated and embezzled. Taxpayers should thus be educated about dynamics in tax system and measures being instituted to safeguard their monies in the national coffers. This is likely to boost their attitude with regard to taxation matters. Mukasa (2011) noted that positive attitude towards tax compliance is likely to reduce the probability of them evading tax. Tax education is very essential to taxpayers who file tax returns on their own; it enlightens them on how to compute their tax obligation and what to remit to revenue authorities. Increased tax education is a likelihood that taxpayers are likely to comply with tax laws as and when they are required to do so. According

to Saad (2012) the only measure to increase tax compliance is through effective tax enlightenment.

Those with better tax education demonstrate increased compliance as compared to those with no or have scanty tax education. Some theorists recommended tax education to be incorporated in school's curriculum (Pail, 2010; Vasak, 2007). They purport that it is an essential knowledge, as tax administration and compliance affect all in the community. Paulsen & Hartel (2012) stated that as complexity and difficulty in performance increases, additional factors are required to predict compliance, such as awareness of the rules. The tax payers should be made aware of the tax procedures and assisted to comply.

2.4.2 Tax Technology

The influence of tax education has been assessed by various researchers, who have established that tax compliance is related to their ability to understand taxation laws and their willingness to honor their financial obligation as and when it falls due (Pail, 2010; Weichenrieder, 2007). Taxation education enlightens taxpayers about their duties and the role of tax in national development as they have a right to know how the national and county governments spend their taxes.

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Kenyan government should review its legal framework to create a conducive business environment for the growth of SMEs, as this is likely to increase SMEs tax compliance and administration. SMEs in Kenya play a very significant role in revenue generation and creation of employment opportunities (International Tax Dialogue, 2007). As such they need to be well nurtured so as not to threaten their existence in both short-run and long-run. Kenya Revenue Authority should come up with tax laws that promote the existence and growth of SMEs. Kenya Revenue Authority should abhor tax laws that hamper tax administration and compliance, which in turn affect the growth and sustainability of businesses. Machira and Irura, (2012) noted that an efficient tax system is the one that is formulated upon involvement of all the relevant stakeholders. The tax rate should not impose burden to taxpayers to the extent that it threatens their existence. It should be rational and fair tax regime that will encourage tax compliance among SME'S

2.4.3 Tax Rate

High taxes rates threaten existence and completeness of SMEs in both short-and-long run. It also encourages tax malpractices such as tax fraud and avoidance. Therefore, tax enforcement

officers should train taxpayers on the benefits accruing from paying taxes as and when it falls due. Studies indicate that tax non-compliance is quite profound in developing economies especially those that have weak governance structures and corruption scandals are rampant. It is detrimental to its economic development. With effect from 1 January 2008 the government introduced a turnover tax (ToT) at a tax rate of 3 per cent of gross receipts is applicable for businesses with an annual turnover of below Kshs 5 million. In 2008/09, the VAT Act was amended to exempt taxpayers who are subject to the turnover tax (IEA, 2012). The KRA's tax functions were reorganized with ICT driven to aid online self-assessment and to better align them with the other tax policy reforms. Further KRA continued educating and guiding taxpayers to settle taxes through banks and not KRA counters in order to reduce revenue leakages (IEA, 2012).

However, SMEs operate in an environment with a complex tax system, bureaucratic tax procedures with exorbitantly charged penalties. A rigid tax system makes it hard for taxpayers to comply, as it is unduly burdensome and may threaten the existence of SMEs in long-run. It should be known that a tax regime that imposes hefty taxes on small enterprises may result to macroeconomic instability (Erikensen & Fallan, 2006). Similarly, a weakly executed tax regime results to low efficiency, increased collection charges and a waste of taxpayers' monies. Existing literature indicates that SMEs are often affected by the various costs arising from the taxes imposed on them. The unprecedented costs of tax administration and compliance have provoked interests of many contemporary scholars, as they seek to understand how it affects taxpayers

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An efficient tax system should be easy to understand, fair and reasonable so as to encourage taxpayers to comply as and when they are required. Formulation of any SMEs tax system therefore should be based on fairness as postulated by benefit theory; that purports that taxes must be paid in accordance with benefits received and not on taxpayer ability. For instance, it is so unfair for those taxpayers paying their taxes as and when they are required, yet they do not have good road, sewage and health infrastructure (Ashby, Wesley & Haslam, 2009; Mukasa, 2011, Vasak, 2007). They feel burdened by unnecessary taxes. Theorists suggest that equal fairness of taxpayers in similar circumstances is of essence and should always be under review. The existing empirical evidence however does not assess the extent to which SMEs tax perception influences sustainable tax compliance among small and medium enterprises; with a view to come up with long time solutions to this malady.

2.4.4 Tax compliance

Tax Compliance cost involves a myriad of expenses or difficulties encountered by the taxpayer in complying with the tax law both in terms of administrative compliance; that is registration, filing and subsequent payment of the taxes (Majiwa, 2016). The mandate of tax authorities according to Farzabod (2010) is to enforce tax laws as prescribed by the laws of land, therefore

it should come up with strategic measures of increasing tax compliance among all categories of taxpayers (Hasseldine, Holland & Rift, 2009). Tax non-compliance in most cases arises when taxpayers fail with tax laws by reporting incorrect income, bloated expenses and claiming incorrect deductions; as well as paying incorrect amount of tax (Lumumba, Migwi & Magatu, 2010).

Non-compliance is perceived as failure of taxpayers to report and remit correct amount or claim reliefs that they are not entitled to. Non-compliance is quite rampant among informal sectors that are not well regulated. Probably, because their income is so small or it could be out of ignorance and lack of the relevant knowledge with regards to tax issues. Most individuals do not like to honor their tax obligations as and when they fall due. They opt to take variety of actions to reduce their tax liabilities. This can be through tax avoidance where they circumnavigate all the tax laws and take advantage of the loopholes in tax law to elude tax payment. It could be through income reduction and postponement of taxes to be at later days (James & Alley, 2014). Therefore, tax authorities ought to be vigilant enough to unearth such schemes by formulating policies and strategies. They should monitor and evaluate implementation of tax laws while making recommendations to the legislators on the best practice that shall seal revenue leakages and optimize tax collection. They should strive at maintain an expansive database of taxpayers that is synchronized with all government systems.

They should initiate controls that shall help in detection of tax malpractices. It should always deter non-compliance among taxpayers with whatever means possible. However, it should esteem in building capacities of taxpayer; realized through awareness campaigns in all public spaces. The taxation of SMEs is an important issue given their importance to the economies of countries. Careful design of government programmes for SMEs, including special tax rules, can address market failures and the disproportionately high compliance burdens faced by SMEs. Consideration of the heterogeneity of the SME sector and the different challenges faced

by SMEs and their owners need to be considered in the design of the taxation rules as governments endeavor to promote the creation, innovation and growth of SMEs.

2.5 Critics of literature review

One of the areas of great concern among researchers is the area of tax compliance in small and medium enterprise.. For instance, Mutula and Mutinda, (2015) when studying tax compliance among SME's in Machakos County observed that low compliance cost is associated with high compliance level, these findings have been vindicated by several researchers including Lumumba *et al*, (2010) and Slemrod (2006) observed that there is a general positive correlation between tax understanding, lower tax rates, compliance costs, high fines and penalties to the general level of compliance. he found out that tax rate is the main challenge facing SMEs. These factors remain a threat up-to-date. According to the researcher such issues as tax rate and cost of compliance has to be addressed adequately by on boarding both tax payers and tax expert in order to come up with amicable solution which will enhance tax compliance among SMES.

Atawodi (2012) in his study on factors that affect tax compliance among SMEs in Nigeria noted that a high tax rate mostly aids non-compliance and affect the growth of SMEs as most tend to stagnate in the informal sector. The findings resonate with another study carried out in Ghana, by Carroll (2011), who found out that the amount of taxes paid had an adverse effect on the wellbeing of taxpayers. The respondents reported a decrease in after tax profits after paying taxes and some felt their willingness and ability to cater for their families was adversely affected by the amount of huge taxes they were paying Carroll (2011). Tax compliance among SMEs is low as they have inadequate resources and expertise to comply with sophisticated tax regulations (Bautigam, Fjelstad & Moore (2015).

Majiwa (2016) in a bid to determine the general tax payer behavior in Kenya found that compliance levels are higher in corporates than with individual tax payers. Findings also showed that for corporate taxpayers, enforcement measures had a negative impact on tax compliance level while tax rates, compliance costs and nature of tax had a positive impact. For individual tax payers; enforcement measures had a positive impact on tax compliance while tax rates, compliance costs, nature of tax had a negative impact on tax compliance. Results indicate that Kenya's tax design enhances taxpayer's compliance level as both individual and corporate tax payers reported high level of tax compliance despite asserting the presence of many taxes in Kenya. (Majiwa, 2016).

Even though, many researchers like the few mentioned above alluded to fact that tax rate and cost compliance needs to be reviewed downward, caution should be taken especially with the reduction and more mechanism of getting SME on board and tightening the loop-hole by providing a tax system which cannot be manipulated. Another factor that needs to be addressed is the human factor. The officers administering tax must uphold high moral and ethics while on duty. This concurs with the deterrence theory which stipulates that people choose to obey or violate the law after calculating the gains and consequences of their actions. If the tax administrator moral can be comprising at a lower fee, then the taxpayers might opt for violating the law and paying a small bribe fee to an officer.

2.5 Research gap

A research gap is a question or a problem that has not been answered by any of the existing studies or research within your field (Elyse Wolf 2019). In relation to the study done, there is still a need to improve on the work earlier done to ascertain how tax can be improved and tax education in regards to compliance behavior. The studies focused on the tax education on tax compliance but still the question that one would be asking is how we can change the tax education to improve on revenue collection.

Tax technology most of the research done have not been done within this area to understand the level of understanding of the tax technology and the rules and regulations relating to tax compliance in addition, the researchers have not been able to come with a conclusive way of understanding the issues of taxation as far as the small scale traders are concerned.

2.6 Summary

In brief, this chapter outlines the theoretical framework, which establishes the theories and concepts that govern this research. The three theories anchoring this study are deterrence theory purports that taxpayers are influenced by economic motives and trade on the probability that their actions will not be detected; psychological theory that posits that taxpayers are influenced by psychological factors rather than the fear of detection. Another theory discuss at length was the Ability to Pay Theory of taxation which stipulate that the taxation should be levied according to an individual's income or ability to pay and is the basis of progressive tax where the tax rate increases by the increase of the taxable amount. This was followed by empirical literature which reviewed related study and highlighted their findings. The conceptual framework on the other hand outlines the relationship that exists between dependent and independent variables. Additionally, the critic of literature review and the research gap was also addressed in relation to the research topic which is determinant of tax compliance in small and medium enterprise.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter entails the research methodology used by the researcher in this study. It gives the framework of the research methodology that was used in this study. The chapter brings out the aspects of the research design, target population, sample size and sample technique, data collection and data analysis.

3.1 Research Design

This study employed a descriptive research design. A descriptive research design was best for this study as it describes characteristics associated with the subject population, and in particular factors that make them behave the way they do. According to Coopers and Schindler (2003), descriptive design discovers and measures the cause and effect of relationships between variables. Mugenda and Mugenda (2003) state that a descriptive research determines and reports the way things are and attempt to describe possible behavior, attitude, values and characteristics of such things. The study employed descriptive design because enable the researcher collect large quantity of in-depth information about the population being studied

.3.2 Target Population

The target population consisted of small and medium enterprises drawn from Emabakasi East which has areas like Upper Savanna, Lower Savanna, Embakasi, Utawala and Mihango Trading Centres. The research endeavored to investigate the determinants of tax compliance among SMEs in Embakasi East sub-County which has an estimated population of 13,040 merchants engaging in both retail and wholesale business.

Table 3.1 Target Population

Category	Target Population
Upper Savanna	2,310
Lower Savanna	2,860
Embakasi	3,600
Utawala	2,800
Mihango	1,470
Total	13,040

3.3 Sampling Frame

The research was undertaken in Embakasi East Sub-county, which has an estimated population of 13,040 business according to economic survey, (2017) It is further sub-divided into 5 wards that include Upper Savanna, Lower Savanna, Embakasi, Utawala and Mihango. It was found appropriate, as it is a business hub of thousands of small and medium enterprises in Nairobi County.

3.4 Sample and Sampling Technique

Sampling method used is stratified and simple random sampling method where by the researcher divided the entire population into different strata namely Upper Savanna, lower Savanna, Embakasi, Utawala and Mihango and then randomly selected the final subjects proportionally from different strata using the formula below to derive a representative sample:

$\frac{\text{Stratum Population}}{\text{Total Population}} \times \text{Sample}$ (Creswell, 2014). The researcher used a confidence interval of

10.33 and confidence level of 95% to arrive at a sample of 75 respondents as outlined in table 3.2:

Table 3.2 Research Sample Size

Category	Population		Sample size
	Target Population	Stratum Weight ($\frac{N^h}{N}$)	$(\frac{N^h}{N}) \times 90$
Upper Savanna	2,310	0.13366	16
Lower Savanna	2,860	0.20864	20
Embakasi	3,600	0.30970	25
Utawala	2,800	0.14670	19
Mihango	1,470	0.20130	10
Total	13,040		90

3.5 Data Collections Instruments

A questionnaire was used as a primary data collection tool which was subjected to a validity and reliability test. That was done through the use of a test-re-test method on the questionnaires on some self- selected respondents from the target population considered to have the same characteristic with the ones in the target population. Validity establishes whether the research instruments used are in a position to measure what it purported to measure (Mugenda & Mugenda, 2007). After which questionnaires were collected, analyzed and some adjusted.

3.6 Data Collection Procedures

Before data collection begin the researcher or the student was required to obtain official letter from the university authorizing him to move to the field to collect data. Upon receipt of the letter from the university the researcher proceeded with the research documents to the respondents. An introduction letter was issued to the sampled entities for consent to collect

data from the respondents. The questionnaires were administered to the respondents directly by the researcher because most businesses in the study area are in close proximity to each other. For those respondents who was not be available for a sit-in filling of the questionnaire, it was e-mailed to them.

3.7 Pilot Testing

Pilot testing is an important component of the data collection process. A pilot test on a selected sample of respondents was conducted in order to ascertain the validity and reliability of the questionnaire before being administered to the target population. It is usually a small-scale trial run of all the procedures planned for use in the main study. In particular, pilot testing of an instrument administered for research purposes, say a questionnaire, is the standard in social sciences and were employed in the study. Once a questionnaire has been finalized, it should be tried out in the field (Mugenda & Mugenda, 2003).

According to Cooper and Schindler (2010) and Mugenda & Mugenda (2003), a sample of at least 10% of the population is usually acceptable in a pilot study. Therefore, to pre-test the research instrument a sample of 30 state SMEs selected for pilot testing in order to check the validity and reliability of research instruments.

The primary purpose of a pilot study is to evaluate the feasibility of the proposed major study. The pilot test may also be used to estimate costs and necessary sample size of the greater study (Peter Schattner 2006).

3.7.1 Reliability of the research instruments

Reliability is an assessment of the degree of consistency between multiple measurements of a variable (Hair, Black, Babin, & Anderson, 2010). Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Mugenda &

Mugenda, 2003). Reliability relates to the consistency of the data collected and degree of accuracy in the measurements made using a research instrument. The greater the ability of the instrument to produce consistent results, again and again, or rather the repeatability of the measure the greater its reliability. An item analysis was conducted to determine internal consistency and reliability of each individual item as well as each sub-scale of the data collection instrument in accordance with Kumar (2005). Cronbach's Alpha reliability coefficient, was used for the internal reliability test. The coefficient normally ranges between 0 and 1 although actually, no lower limits exist.

3.7.2 Validity of the research instruments

Validity is the ability of an instrument to measure what it is designed to measure. It is the correctness or credibility of a description, conclusion, explanation, interpretation, or other sorts of account (Kumar, 2005). Validity-Content validity is whether or not the measure used in the research covers all of the content in the underlying construct (the thing you are trying to measure). A construct represents a collection of behaviors that are associated in a meaningful way to create an image or an idea invented for a research purpose.

Construct validity is the degree to which your research measures the construct (as compared to things outside the construct). The study employed content and construct validity was used.

3.8 Data analysis and presentation

The questionnaires collected from the respondents were ascertained to ensure that only the sufficiently and appropriately filled ones were considered for the study. This was done in order to eliminate incomplete data and minimize outliers in the eventual findings. The Statistical Package for Social Sciences (SPSS) version 25.0 computer software was used to facilitate data analysis. Data collected from the questionnaires were analyzed using descriptive and inferential

statistics. In particular, descriptive statistics encompassed, frequencies, percentages, means and standard deviations while inferential statistics will constitute Pearson's product moment correlation coefficient and multiple regression analysis. The findings were presented in form of tables and were interpreted and discussed in line with the study objectives. The following multiple regression model was adopted. The researcher endeavored to examine the relationship that exist between SMEs tax technology, tax education, Tax Rates and how they influence tax compliance among SMEs in Embakasi Sub-County. Regression Model below was used to deduce the magnitude of the relationship that existed among variables:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \epsilon \text{ Where:}$$

- Y..... Tax compliance among the SME
- X₁..... Tax Education
- X₂..... SMEs Tax Technology
- X₃..... Tax Rate
- B⁰..... is the constant
- ε..... is the residual error

3.9 Diagnostic test

Diagnostic test is a test to identify an individual's specific areas of weakness and strength in order determine a condition, disease or illness (Philip Shalen 2002). The study tested normality, multicollinearity,

3.9.1 Normality test

A normality test was tested to determine whether sample data has been drawn from a normally distributed population (within some tolerance) (Philip Shalen 2002)

3.9.2 Multicollinearity test

Multicollinearity was tested to determine whether there is similarity between the independent variables in a mode. It is used to avoid habits in the decision making process regarding the partial effect of independent variables on the dependent variable (Philip Shalen 2002)

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter shows response rate, the results of data reliability, and descriptive statistics of the study variables, regression analysis and an interpretation of the study findings.

Table 4. 1 Questionnaire Distribution

Category	Sample	Actual Response	No response
Upper Savanna	16	16	0
Lower Savanna	20	18	2
Embakasi	25	24	1
Utawala	19	19	0
Mihango	10	10	0
Total	90	75	3
Percentage		83.3%	16.7%

4.2 Response Rate

At 83.3%, the response rate was considerable implying that a considerable number of respondents took part in this research. The response rate was considerable as most respondents took part in the study with a small fraction of them not participating. This was largely attributed by the fact that the researcher assured them of anonymity as the researcher was purely academic with an aim of improving tax compliance among SMEs.

The researcher administered a total of 90 questionnaires and 75 were completed and returned. This represents a response rate of 83.3% as shown in Table 4.1. This response rate was adequate to allow the researcher to continue with the analysis. The questionnaires were composed of questions that addressed the objectives of the study.

Table 4.1 Response rate

Category	Frequency	Percentage
Completed and returned	75	83.3
Not returned	15	16.7
Total	90	100

4.2.1 Reliability Analysis

The researchers carried out reliability analysis prior to the actual study. The researcher carried out a pilot study to pre-test the validity and reliability of data collected using the questionnaire. The pilot study allowed for pretesting of the research instrument. The result on reliability of the research instruments are presented in Table 4.2.

Table 4.2: Reliability Coefficient Results

Scale	Cronbach's Alpha	Number of item
Tax Education	0.739	4
Tax Technology	0.842	4
Tax Rate	0.802	4
Tax compliance	0.742	4

In order to ensure that the reliability of research instruments the researcher used Cronbach's Alpha approach to measure internal consistencies. This method according to Creswell (2014) assists the researcher to establish how well the research instruments measure what it should. Cronbach's alpha tests measure to establish if multiple-question likert scale surveys are reliable, as these questions measure latent variables hidden or unobservable like pearsons' conscientiousness, openness or neurosis. Generally, a Cronbach's alpha score of more than 0.7 is acceptable, while those below 0.7 are questionable and unacceptable. The researcher used

statistical package for social scientists to compute Cronbach reliability of coefficient, and it revealed that: Cronbach alpha of the research instrument was above 0.7, implying that the instruments were sufficiently reliable for the measurement. As most item total correlations were reasonably high, with Cronbach's alpha exceeding 0.7, the construct validity of the instrument was considered accurate (Bryson 20012).

4.2.2 Validity of Results

Research validity was established by relating measuring instruments to a general theoretical framework in order to determine whether the instrument is tied to the concept and theoretical assumptions they are employing Nachmias, (2008). The content validity of this research was determined by discussing the tools with my supervisors and establishing whether the questionnaires and interviews, tools to measure results in relation to the research objective.

Pilot testing done by researchers before data collection also helped in adjusting the tools to ensure higher validity was achieved. Taxpayers operating business which falls under small and medium enterprise's in Embakasi East Sub-County were asked in the questionnaires to indicate their level of level of agreement with the following statements. This was to be done in relation to registration process on iTax system on a scale of 1 -4 where 1-Strongly agree, 2 agree, 3- Disagree, and 4-Strongly Disagree. The findings obtained were as shown in the table.

4.3 Background informatio

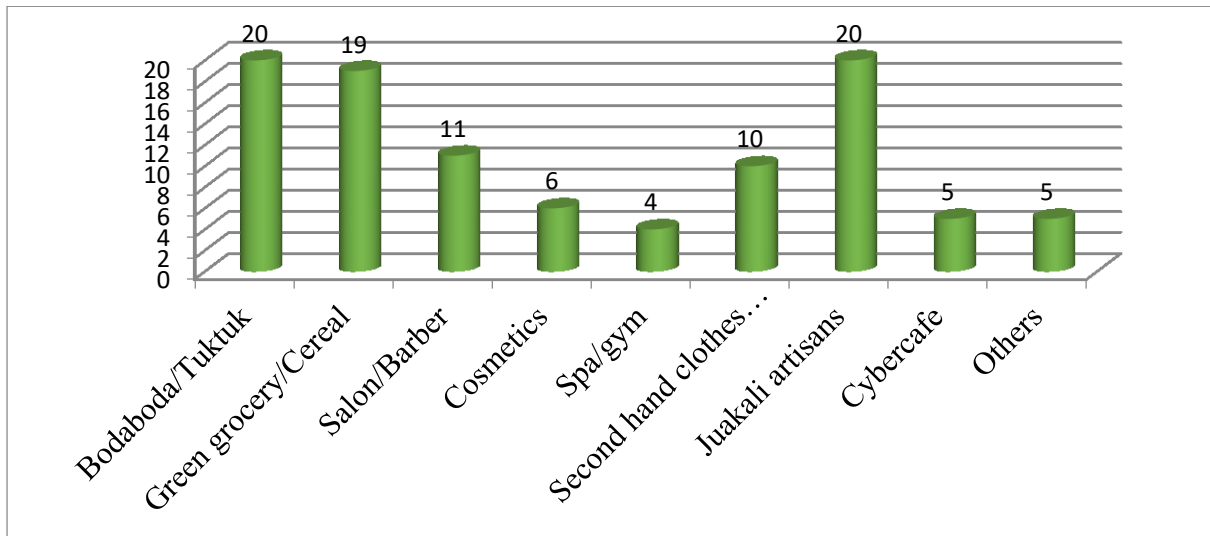


Figure 4.1 Respondent Type of Business

This section delves in capturing respondent SME background information with a view of understanding the relationship that may exist between their nature of business and their ability to comply with tax authorities in tax remittance. The inference indicates that a large proportion of the respondents who participated in this research at 20% and 20% were bodaboda operators and Juakali artisans respectively. This inference suggests that perhaps more research should be conducted to establish the uniqueness of these two sectors with a view of formulating ideal customer tailored tax compliance policies that would harness the revenue arising therein.

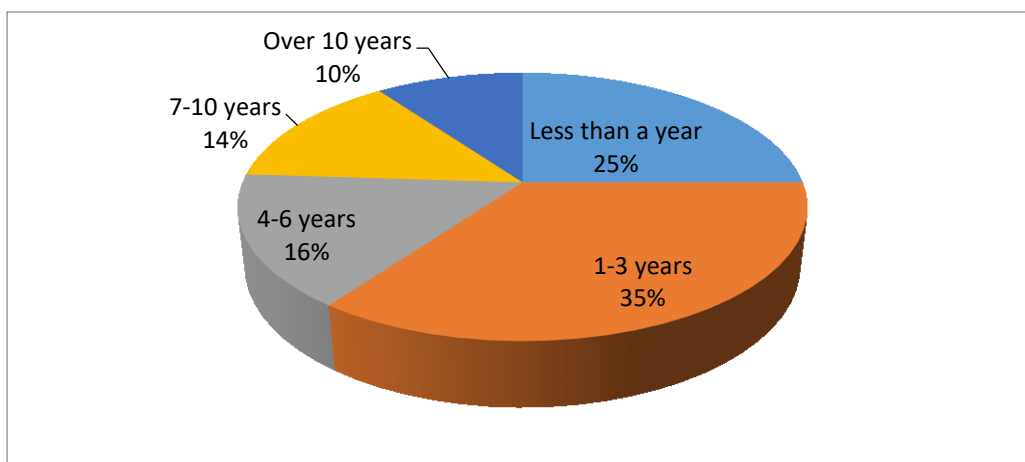


Figure 4. 2 SME period of Operation

From figure 4.3 it is apparent that most businesses were mostly in their infancy period of less than a year or less than three years, consisting 25% and 35% respectively. This trend perhaps indicates that most SMEs do not celebrate their third-year birthday probably because of their informal business model. This is an indicator that if SME sector is well harnessed it has possibility to alleviate periodic KRA revenue shortfalls. Most of these businesses were not registered under business name and bore an informal business model.

It was also apparent that a significant number of SME at 53% had an annual turnover of Kshs. 3,000,000 and above. This is an indicator that if SME sector is well harnessed it has possibility to alleviate periodic KRA revenue shortfalls. Most of these businesses were not registered under business name and bore an informal business model.

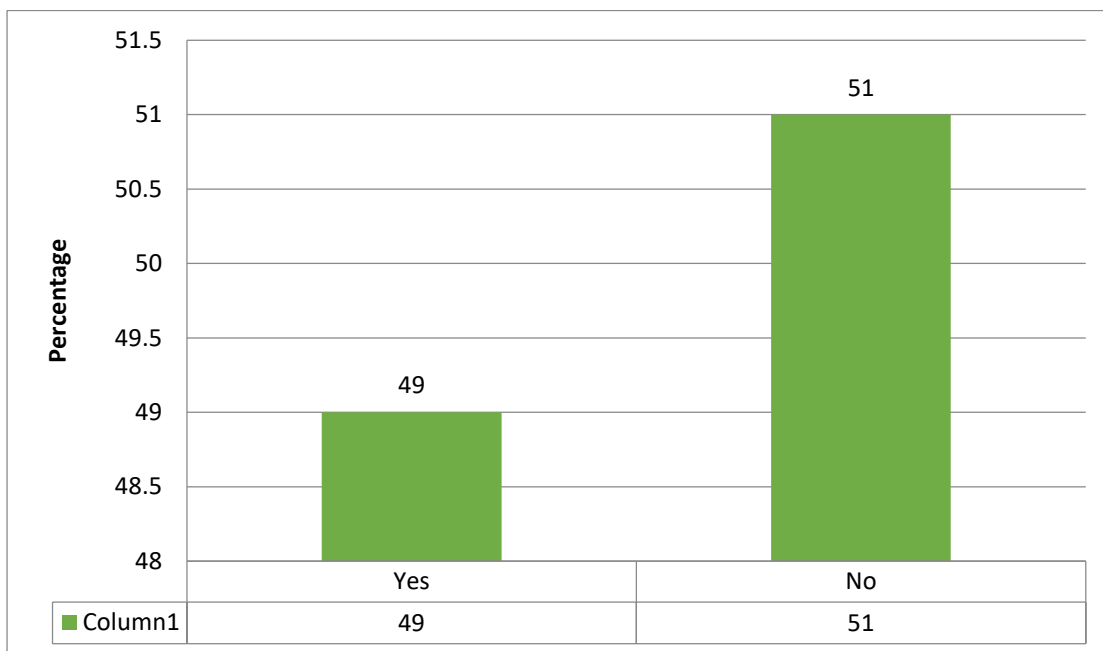


Figure 4.3 Businesses with KRA PIN

From figure 4.3 it was established that most SMEs operators did not have PIN certificate as most of their business operated as sole-proprietors were using individual PIN or not having any PIN at all. This probably explains why this sector is not harnessed fully, as most of this business cannot be formally identified. As such KRA should come up with stringent countermeasures

that shall allure more taxpayers. Perhaps it should make it paramount to anyone subscribing to business licences to possess a KRA PIN.

Analysis: From table 4.2 majority of the employees at 65 % felt that tax remittance is everybody's obligation. However, they expressed their displeasure in the manner in which SMEs tax are formulated, as they are not tailored to encourage their growth. As such, a further 65% of the respondents believed that the current SME tax administration is a threat to their earnings.

Interpretation: It is an indication that most of the SMEs licence fees are exorbitant and as such KRA should perhaps engage the SMEs fraternity to understand their business reality perspective. The perceived tax burden discourages most SME from complying as such there should be attempts by KRA to carry-out more awareness campaigns on the civil duty to remit taxes as and when it is due so as to enhance provision of public goods and services.

4.4 Descriptive statistic

4.4.1 SME'S Tax Education

The inference in table 4.3 indicates that most of the respondents have never been to any KRA training and that could also be the other reason why there is reduced tax compliance among themselves. While a significant majority of respondents have no book keeping skills as such they are unable to compute their tax liability and have to hire people to assist them. Some of them are assisted while others do simply remit their taxes. From the inferences it can be deduced that low tax compliance and late tax filing among SMEs is influenced by inadequate tax Education among taxpayers.

Inference in table 4.3 indicated that most respondents with a mean of 2.841 and a standard deviation of 0.7073 disagreed to the fact that KRA has provided taxpayers with enough tax information to enable them comply. Most SMEs owners with a mean of 3.512 and standard

deviation of 0.8068 felt that they have no adequate information with regard KRA systems, and most of them get assisted by third parties to compute tax due and file tax returns. This is an indicator that more tax awareness campaigns ought to be carried-out to alleviate tax illiteracy which may adversely affect tax compliance. Further, the respondents agreed with the fact that they understand different taxes types and know what kind of tax type they are eligible to register for to a great extent as shown by a mean score 2.515 and a standard deviation of 0.9017. Respondent also agreed with the fact that they normally attend business seminars and trainings organized by KRA whenever called upon with a mean score of 2.312 and a standard deviation of 0.8541.

Table 4.3: Tax Education on SME’S compliance at Embakasi East Sub-county

Statements	N	Mean	SD
KRA has provided SME’s taxpayers with enough information to enable them to comply	75	2.841	0.7073
As a business owner I have gain knowledge on KRA tax system such as iTax and can file and pay my tax due without assistance	75	3.512	0.8068
I understand different taxes types and know what kind of tax type I’m eligible to register for.	74	2.515	0.9017
I normally attend business seminars and trainings organized by KRA whenever called upon	75	2.312	0.8541
Cronbach Alpha Coefficient = 0.7502			
Composite Mean = 2.7950 SD = 0.8340			

4.4.2 SME'S Tax Technology

Table 4.4 Tax Technology on SME'S compliance at Embakasi East Sub-county

Statements	N	Mean	SD
Tax rate for SME's business is fair and manageable and this has enable me to comply	74	2.323	0.8073
Tax exemption granted by the Authority has contributed to business growth hence encouraging tax compliance among SME	75	3.133	0.9068
Penalties and fines accrued by business are high and punitive hence this encourages tax compliance among SME's in Embakasi East	74	2.3131	0.7037
The pre-qualification of business in Kenya such as having business permit, business certificate and KRA PIN encourage business compliance	73	1.1043	0.8541
Cronbach Alpha Coefficient = 0.740			
Composite Mean	= 2.3 215		
Standard Deviation	= 0.817975		

According to findings on table 4.4 above, the respondent agreed with the fact that with Tax rate for SME's business is fair and manageable and this has enable them to comply with a mean of 2.323 and a standard deviation of 0. 8073. This shows that the tax rate for Turn over Tax of 3% which majority fall under was fair to majority of business operators. However, majority of the respondents disagreed with the fact that agreed with the fact that tax exemption granted by the Authority has contributed to business growth hence and encouraging tax compliance among SME, s with a mean score of 3.133 and standard deviation of 0.9068. This means that business operators have no specific exemption which is beneficial to them When asked to state whether Penalties and fines accrued by business are high and punitive as a result many comply to avoid

being penalized, finding revealed that majority of the respondent alluded to the fact with a mean score of 2.3131 and standard deviation of 0.7037. This shows that to some extent the penalty of not filing which was increased through the Tax Procedure Act, (2015) which currently is a fine of Ksh 20,000 for failing to file by due date is punitive to majority of business owners. As revealed in the findings, the respondent strongly agreed with the fact that the pre-qualification of business in Kenya such as having business permit, business certificate and KRA PIN encourage business compliance among the SME's with a means score of 1.1043 and a standard deviation of 0.8541. This shows that the prequalification of business in Kenya actually enhance tax compliance among the business owners.

4.4.3 SME's Tax Rate

Respondent were asked to indicate your level of agreement with the following statements regarding your opinion on how Tax Rate affects tax compliance among the SME, S in Embakasi East Sub -County a scale of 1 - 4 where 1-Strongly Agree, 2 Agree, 3- Disagree, and 4-Strongly Disagree

Table 4.5 Tax Rate on SME’S compliance at Embakasi East Sub-county

Statements	N	Mean	SD
The VAT tax rate of 16% is sustainable and this enhances tax compliance in my business.	75	2.323	0.9073
The Graduated PAYE tax rate if sustainable and this enhances tax compliance in business.	75	2.4541	0.8068
Filing and payment normally takes shorter time and this encourage tax compliance	75	2.3131	0.7546
The cost of complying is much lower than that cost of non-complying when the Authority enforcement team discover business existence	75	2.1043	0.8545
Cronbach Alpha Coefficient = 0.7907			
Composite Mean = 2.2950 SD = 0.9340			

According, to findings found on table 4. 5, the respondents strongly agreed with the fact the cost of hiring staff when remitting tax is sustainable and this enhance tax compliance among SMEs; it had a means score of 2.323 and a standard deviation of 8073. This shows that out of the sample chosen majority run a single business hence they do not incur a lot of cost when it comes to tax matters. The respondents also strongly agreed with the fact that, cost of keeping business record is manageable and this contribute to overall tax compliance, which had a means of 2.4541 and a standard deviation of 0.8068. However, respondents somewhat agreed with the statement that filing and payment normally takes shorter time, and this encourage tax compliance with a means score of 2.3131 and a standard deviation of 0.7546. Even though, quite a number of taxpayers still visit the KRA premises to get assistance. Additionally, the respondent agreed with the fact that cost of complying is much lower than that cost of non-

complying when the Authority enforcement team discover business existence of 2.1043 with a standard deviation of.8545.

4.4.4 Tax Compliance among SME’S in Embakasi East County

When asked to indicate the level of agreement with the following statements regarding your opinion on how Tax Rate affects tax compliance among the SME, S in Embakasi East Sub - County a scale of 1 - 4where 1-Strongly Agree, 2 Agree, 3- Disagree, and 4-Strongly Disagree

Table 4.6 Tax Compliance among SME’S in Embakasi East County

Statements	N	Mean	Standard deviation
Tax payers Education on tax matters has a positive impact of tax compliance on SMEs	75	2.1135	0.9683
KRA technology on SME’S Has a positive impact on tax compliance	75	1.9217	1.773
Tax Rates are manageable and this contribute to increase of tax compliance tax compliance	75	2.1873	0.8497

When asked to state whether to state whether tax payer’s knowledge on tax matters has a positive impact of tax compliance on SMEs, the majority of the respondent alluded to the fact with a means score of 2.1135 and a standard deviation of 0.9683. Additionally, most of the respondents agreed with the fact that fixing tax technology on SME’S has a positive impact on tax compliance, with a means score of 1.9217 and standard deviation of 1.733. The respondent further agreed with the fact that cost of registering, filing and keeping business record is manageable and this contribute to increase of tax compliance with a means score of 2.1873 and

a standard deviation of 0.8497. Findings further revealed that the Tax Rate has increased over past years due to tax education as it had a mean of 1.1843 and standard deviation of 1.7983.

4.5 Correlation Analysis

4.5.1 Correlation results on independent variables

Correlation shows the relationship existing between variables in the study. The study's dependent variable is turnover tax compliance and the independent variables consist of taxpayer awareness, taxpayer perception, fines and penalties, and cost compliance.

The results depicted in table 4.7 below

Table 4.8: Correlation between independent variable and dependent variable

Variables		Tax compliance	Taxpayer education	Tax technology	Tax rates	
SMEs tax compliance	Pearson Correlation	1				
Taxpayer education	Pearson Correlation	0.423	1			
	Sig. (2-tailed)	0.001				
Tax technology	Pearson Correlation	0.436	.3622	1		
	Sig. (2-tailed)	0.002				
Tax rates	Pearson Correlation	0.422	.3234		1	
	Sig. (2-tailed)	0.001	.0012			

In an attempt to show the relationship between the study variables and their findings the study used the Karl Pearson’s coefficient of correlation (r). According to the findings as indicated in table 4.7, it was clear that there was a positive correlation between tax compliance and taxpayer education as depicted by a correlation value of 0.423. This implies that tax technology was linearly related to tax compliance also depicted by a correlation value of 0.436. The study also depicted that there was a positive correlation between tax rates and tax compliance by a correlation value of 0.422.

4.6 Regression Analysis

4.6.1 Model Summary

Table 4.9: Model Summary for independent and dependent variables

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate	Durbin-Watson
1	.544 ^a	.295	.290	.81664	2.004

a. Predictors: (Constant), Taxpayer education, Tax technology, and tax rates

b. Dependent Variable: Tax compliance

From the model, summary The R square value in Table 4.8 is 0.544, which clearly suggests that there is a strong relationship between taxpayer education, tax technology and tax rates as indicated in table above. This indicates taxpayer education, tax technology and tax rates, share a variation of 54.4% of tax compliance.

4.9 Discussion of key Findings

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

4.7.1 Taxpayer education and tax compliance

Taxpayer education was assessed using five measures and the overall mean score or responses regarding taxpayer awareness were 2.2 on a 5-point scale, which indicates that majority of the respondents, agreed that taxpayer education on tax compliance in Kenya. The average overall standard deviation of 0.72 infers that 68% of the response was spread within one standard the taxpayer education had positive and significantly related to tax compliance ($r = -0.148$, $p\text{-value}=0.00<0.05$).

4.7.2 Tax technology and tax compliance

Tax technology was assessed using five measures and the overall mean score or responses regarding tax technology were 1.66 on a 5-point scale, which indicates that majority of the respondents, agreed that tax technology on tax compliance. The average overall standard deviation of 0.0.66 infers that 68% of the response was spread within one standard deviation of the overall mean. Further collinearity analysis was done and the results revealed that tax technology had a positive and significantly related to tax compliance ($r = 0.341$, $p\text{-value}=0.00<0.05$).

4.7.3 Tax rates and tax compliance

Tax rates was assessed using four measures and the overall mean score or responses regarding tax rates were 2.5 on a 5-point scale which indicates that majority of the respondents agreed that tax rates affects the tax compliance in Kenya. The average overall standard deviation of 0.74 infers that 68% of the response was spread within one standard deviation of the overall mean. Further collinearity analysis was done and the results showed that tax rates had a positive and significantly related to tax compliance in Kenya ($r = 0.298$, $p\text{-value}=0.00<0.05$).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This final chapter highlights the key findings of the study and makes both conclusions and the recommendation for practice, improvements and for further research. It also recapitulates the findings of the study done with specific reference to the objectives and research questions of the study used as units of analysis. Data were interpreted and the results of the findings were correlated with both empirical and theoretical literature available. The conclusion relates directly to the specific objectives and research question. The recommendations were made based on the conclusions and discussion of the findings.

5.2 Findings Summary

The research findings outline the main determinants of SME tax compliance as SME tax education, technology and high tax rates. The findings also revealed that there is a positive correlation between SMEs tax Education, tax technology, and the tax rates with tax compliance. The research established that inadequate tax literacy is a contributing factor to reduced SMEs tax compliance and as such KRA should embark on SMEs tax awareness campaign to sensitize the importance of remitting the tax. The findings indicate that close to 67% of tax compliance is attributed to a combination of the three independent factors investigated in this study (tax education, tax technology and high tax rates).

5.2.1 SMEs Tax Education

The findings revealed that most SMEs operators in Embakasi Sub-County have not been to KRA training as a result they lack adequate tax Education pre-disposing them to tax non-compliance. Most respondents felt that KRA should increase its tax awareness campaigns in Embakasi region so as to enhance their awareness with regard to tax Education. This is in

agreement with Lumumba, Migwi and Magutu (2010), argument that the only way to enhance tax compliance is by building their capacities through periodic tax awareness campaigns. Empowered taxpayers are likely to exercise their civic duty of remitting their taxes as and when it is due.

Pail (2010) findings also depicts that taxpayers' education and awareness on taxes play a key role in determining of taxpayers' compliance behavior. He suggested an adoption of an effective continuing education and monitoring programs to ensure the taxpayers have a reasonable Education and understanding of tax issues.

This was also in line with Saad (2012), who noted that tax attitude impacts on taxpayer's willingness to remit taxes. He found that in instances when tax authorities carried out periodic tax awareness campaigns there was increased tax compliance among taxpayers; as they are made aware of its importance as compared to instances where this was not done

International Tax Dialogue (2007) report also advocated for the revenue authorities to periodically hold seminars, workshops and road shows to educate the public on tax compliance matters. Various empirical studies suggest that increased public awareness may encourage citizens to fulfill their financial obligation, report correctly and remit their taxes in a timely manner (Mansor, Tayib & Yusof, 2015). Lumumba *et al.* (2010) and Sara & Yoke (2012) observed in their studies, that there is a general positive correlation between Tax understanding, lower tax rates, compliance costs, high fines and penalties to the general level of compliance. They found out that tax rate is the main challenge facing SMEs. The study finding is in line with others studies which have suggested that tax Education is a key factor in SME's tax compliance.

5.2.2 SMEs tax Technology.

The research discovered that current technology, which involves itax system that provides a platform for online filling of returns for SMEs, is a big challenge therefore resulting in reduced SMEs compliance in Embakasi Sub-County. Most SMEs feels that the current tax administration is unfair, as it does not address the fundamental issues facing SMEs establishment. They feel overburdened by among others tax technologies being adopted by the tax administration, increasing their chances of evading taxes that include VAT, PAYE, and income tax. This is in line with Ashby *et al.* (2009) in his research finding that outline that tax rate as the main challenge facing SMEs. This also resonates with the finding by highlighting high tax rate as most aids to non-compliance and as a result, the growth of SME tends to stagnate in the informal sector. The findings resonate with another study carried out in Ghana by Carroll (2011). Aggressive tax enforcement according to Pail (2010) is not a solution when trying to alleviate tax shortfalls, instead there should be open communication between tax enforcement agencies and taxpaying entities to iron-out contentious issues that may jeopardize the entire system. Weichenreider (2007) noted in his research that an efficient tax system is the one that is formulated upon the involvement of all the relevant stakeholders. The previous findings concur with the finding that indeed tax technology is a major factor that should be formulated to facilitate simple administration tax and not to frustrate taxpayers

5.2.3 KRA Tax Rates.

A high percentage of the respondents were not amused by the high rates of taxes in Kenya. They termed the tax rates as exploitative. As a result, most of the respondents saw it as a threat to their hard-earned earnings. An indicator that most taxpayers are ignorant, they thought that, if their company is registered and they suffer loss, they are exempted from various taxes. These findings therefore support a statement by Mutula and Mutinda, (2015) when studying Tax compliance among SME's in Machakos County observed that low tax compliance are

associated with high compliance level, these findings have been vindicated by several researchers including Lumumba *et al*, (2010) and Sara and Yoke (2012) also resonates with the findings as they indicate in their findings that there is a general positive correlation between Tax understanding, lower tax rates, high fines, fees, interests and penalties to the general level of compliance .

In his study on tax compliance Holban (2010), also support the theory when his finding revealed that the only sure way of enhancing tax compliance among taxpayers is not by penalizing them but by encouraging voluntary tax compliance, through increased awareness campaigns. The ability to pay theory also resonate with the findings as it states that the taxation should be levied according to an individual's income or ability to pay and is the basis of progressive tax where the tax rate increases by the increase of the taxable amount. KRA should ensure the tax levied on Small and medium enterprises are reasonable and affordable to public.

5.3 Conclusion

In its conclusion, this study has established that the small and medium enterprise sector has the potential to fill-in KRA revenue shortfalls if it is harnessed fully. The study has also established the tax the main determinant of SMEs tax compliance is tax Education, tax technology and Tax Rate. KRA has to focus on these issues and make adjustment in the policy where necessary. There is a need for multi-stakeholder involvement in not only formulation but also in the implementation of SME tax policies. This will likely to promote voluntary tax compliance among SME fraternity. There should be tax awareness campaigns to educate them on the importance of remitting tax as and when it is required. This effort is likely to boost SMEs tax perception thereby increasing voluntary tax remittance among SMEs taxpayers. KRA should, therefore, formulate a sustainable SMEs tax compliance framework that addresses the various plights of SMEs. It should also provide incentives to get more taxpayers. There should be open

communication between tax enforcement agencies and taxpaying entities to iron-out contentious issues that may jeopardize the entire system.

5.4 Recommendation of the study

Upon analyzing the collected data and interpreting the findings, the followings recommendations were made. The recommendations were based on the three main issues namely:-

- How to enhance tax Education among SMEs,
- Making technology simpler and available to the taxpayers, by avoiding jargon and continuous improvement of tax system by making it user friendly.
- Finally strive to endeavor make the tax rates more friendly and affordable to the taxpayers.

5.4.1 SMEs tax Education

(KRA) Kenya Revenue Authority should always carry periodic tax literacy campaigns targeting SMEs with a view of building their capacities to honor their civic duty to remit taxes. During those tax literacy workshops, taxpayers should be educated on the Kenya tax regime and how one should file their own returns and the benefits that may accrue from it. Before processing SMEs waivers, they should be enrolled in a one-day training on how to go about their tax obligations. Tax education should be rigorous to enlighten taxpayers about their duties and the role of tax in national development as they have a right to know how the national and county governments spend their taxes.

5.4.2 SMEs tax Technology

Technology is a key aspect in taxation it is paramount for the authority to continuously work throughout to improve the tax policy to meet every category of taxpayers. The researcher after

carrying out the research found out that the tax policy needs some adjustment as far as SMEs in Kenyan is concerned. For Kenya government to fulfill its obligation by meeting the citizen needs without encountering turbulence of excess borrowing from other countries. There is a need for Large-scale structural reforms such as simplification of tax administration by ensuring the system is simple to use when registering as a taxpayer, filing the returns and payment of the same. Additionally, there is need of multi-stakeholder involvement in not only formulation but also in implementation of tax technology.

5.4.3 KRA Tax Rates.

In order to alleviate SMEs tax compliance, Kenya Revenue Authority should seek to empower their taxpayers on how to meet their tax obligations as and when they are due. They should make tax rates such as tax rates interests and penalties affordable and friendlier to the taxpayer. Since the findings indicated that there is a significant number of SMEs owners who did not have an idea of the tax rates levied on those who do not comply. And those who are aware of them complain of high tax rates on both the liabilities, tax rates. Therefore, tax authorities ought to be vigilant enough to unearth such schemes by formulating policies and strategies.

5.5 Suggestions for further study

It is therefore suggested that other researcher can subject this research hypothesis to test by using different research methodology to see whether the findings hold in other contexts.

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APPENDIX I: INTRODUCTION LETTER

Dear Research Participant,

The researchers are humbly requesting you to participate in a research by Post Graduate Diploma at the Department of Tax administration at the Kenya School of Revenue Administration (KESRA). The purpose of the study shall be to evaluate determinants of tax compliance among small and medium enterprises in Embakasi East Sub-county area in Nairobi County. We kindly request you to take note of the following:

We shall treat the data collected therein with utmost confidentiality and the identity of participants shall remain anonymous.

Your participation in this research is of great importance; however, you may choose not to participate or withdraw at your discretion with no notice.

The data collected therein is exclusively for academic purpose and may be published in academic journal. Please note that no information or document shall be included revealing your identity. On request, we shall provide you with a summary of the findings.

You can contact the researchers or their supervisor through:

Anastacia Letting

APPENDIX II: QUESTIONNAIRE

This research aims at evaluating the determinants of tax compliance among small and medium enterprises in Embakasi sub-county. Feel free to share your insights, experience and opinion. Tick where appropriate. Welcome.

Section A: Respondent Background Information

(SA-Strongly Agree, A-Agree, N-Neutral, SD-Strongly Disagree and D-Disagree)

Kindly tick and fill in the gaps where appropriate.

1. Tax education

Please indicate your level of agreement with the following statements regarding the Online Filing process on a scale of 1 -4 where 1-Strongly Agree, 2 Somewhat Agree, 3- Somewhat Disagree, and 4-Strongly Disagree

Statement	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
KRA has provided SME's taxpayers with enough information to enable them to comply					
As a business owner I have gain knowledge on KRA tax system such as iTax and can file and pay my tax due without assistance					
I understand different taxes types and know what kind of tax type I'm eligible to register for					
I normally attend business seminars and trainings organized by KRA whenever called upon					

2: SMEs Tax Technology.

Please indicate your level of agreement with the following statements regarding your opinion on how tax technology affects tax compliance among the SME’s in Embakasi Sub -County a scale of 1 – 4: where 1-Strongly Agree, 2 Agree, 3- Disagree, and 4-Strongly Disagree

Statements	Strongly Agree	Agree	Disagree	Strongly Disagree
Tax technology for SME’s business is fair and manageable and this has enable me to comply				
Tax technology launched by the Authority contributes business growth hence this encourage tax compliance among SME, s				
The level of training on the technology by the tax authority is enough to facilitate tax compliance.				
The registration and pre-qualification of business in Kenya such as having business permit, business certificate and KRA PIN via the current technology encourage business compliance				

3: SMEs tax Rate

Please indicate your level of agreement with the following statements regarding your opinion on how tax Rate affects tax compliance among the SME's in Embakasi Sub -County a scale of 1 - 4 where 1-Strongly Agree, 2 Agree, 3- Disagree, and 4-Strongly Disagree

Statements	Strongly agree	Agree	Disagree	Strongly Disagree
KRA has provided taxpayers with the right tax rates on various tax obligations. E.g VAT etc.				
As a business owner I am in agreement with the tax authority's recent changes on different tax obligations especially rise on tax rate for consumable goods.				
I understand different taxes types and know what kind of tax type I'm eligible to register for and the respective tax rate.				
I am aware of the KRAs tax penalties, fines, fees and interests in case of failure to adhere to conditions of respective tax obligation.				
Reduction of tax rates would encourage and positively encourage tax compliance among SMEs in Embakasi East Sub-County.				

4: Tax Compliance among SME's

.Please indicate your level of agreement with the following statements regarding your opinion on how Cost of Compliance affects tax compliance among the SME's in Embakasi East Sub - County a scale of 1 - 4 where 1-Strongly Agree, 2 Agree, 3- Disagree, and 4-Strongly Disagree

Statements	Strongly agree	Agree	Disagree	Strongly Disagree
Tax payers education and overall education on tax matters has a positive impact of tax compliance on SME's				
Improving tax technology on SME's has a positive impact on tax compliance				
Cost of registering, filing and keeping business record is manageable and this contribute to increase of tax compliance tax compliance				
Tax technology has increased Cost of compliance over past years.				

THANK YOU FOR YOUR TIME

APPENDIX III: WORK PLAN

Tasks	Period (Weeks)	Commencement Date	Completion Date	Remarks
Proposal writing	4 Weeks	01/09/2021	30/09/2022	Accomplished
Pilot study	1 week	05/10/2021	12/10/2022	Accomplished
Collecting data	2 weeks	15/10/2021	30/10/2022	Accomplished
Analyzing data	2 weeks	01/11/2021	15/11/2022	Accomplished
Compiling and Submission of project	8 weeks	01/12/2021	15/02/2022	Accomplished

APPENDIX IV: PROJECT BUDGET.

LIST OF ITEMS	PARTICULARS	UNIT COST	AMOUNT
Stationery	2 ream of paper	500	1,000
	5 binding covers	20	100
	1 Cartridges	1,000	1,000
	1 Scientific Calculator	1,500	1,500
Text Books	Research books	15000	15,000
Internet services	Modem/WIFI		10,000
Library subscriptions	4 months access fee		8,000
Total			36,600