

**Effects of Taxpayer Education on Tax Compliance of Small and Medium  
Enterprises in Meru Town**

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

This project is my original work and has not been presented for a post graduate diploma in any other academic and non-institution

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## **DEDICATION**

I dedicate this project to my mother Virginia Gacunku for always encouraging me in my education and always having my back and providing me with the support and motivation needed to undertake this project.

## **ACKNOWLEDGEMENT**

I hereby appreciate my beloved family for their understanding and support in writing the project. I also want to thank my colleagues at KESRA for their tireless support to ensure that I complete writing this project. I also thank my supervisor Mr. Felix Kilonzi for agreeing to supervise this research project, guide me, review my project and patience in reading the drafts without which the research would not have been a reality.

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

<b>DC</b>	Developing Countries
<b>IC</b>	Industrialized Countries
<b>ICT</b>	Information Communication Technology
<b>IT</b>	Information Technology
<b>KESRA</b>	Kenya School of Revenue Administration
<b>KRA</b>	Kenya Revenue Authority
<b>MCRB</b>	Meru County Revenue Board
<b>MSMEs</b>	Micro, Small and Medium Enterprises
<b>MT</b>	Meru Town
<b>PAYE</b>	Pay As You Earn
<b>PIN</b>	Personal Identification Number
<b>SAS</b>	Self-Assessment Systems
<b>SMEs</b>	Small and Medium Enterprises
<b>SPSS</b>	Statistical Package for Social Sciences
<b>VAT</b>	Value Added Tax

## OPERATIONAL DEFINITION OF TERMS

**Small tax payer:** This is a category of tax payers characterized by business turnover of (less than Kshs.500 million per year), small capital, sole employment structure, unspecialized merchandize and majority of them does not often comply with tax matters, Fischer, Eileen; Reuber, Rebecca (2016).

**Taxpayer education:** This refers to programs aimed at teaching taxpayers about their tax rights, responsibilities and legal requirements. Also refers to the method of educating the people about the whole process of taxation and why they should pay tax, Olowookere, J.K & Fasina, H.T. (2013).

**Tax compliance:** This refers to the willingness of a taxpayer to comply with the tax rules of his country, for example by declaring income, filing a return, and paying all the taxes due and in a timely manner, Devos K (2013)

**Tax Information:** The knowledge or facts provided about taxes. Charles E. Mclure (2015).

## ABSTRACT

Governments are striving to rally greater tax revenue domestically by increasingly reaching out to inform and engage taxpayers, aiming to foster an overall culture of compliance, in which citizens understand paying taxes as an essential aspect of their connection with their government. Taxpayer education is the channel linking tax administration and citizens and a significant tool to change tax culture. Studies done on tax compliance globally revealed that the level of the SMEs tax compliance in the developed nations is higher due to tax education. In Africa, the SMEs tax compliance rate is low and majority of the revenue authorities are unable to meet the tax targets due to inadequate tax education. SMEs have the potential to produce a lot of government revenue in Kenya, but this is not the case. It poses a huge threat to the country's growth as a whole. Against this background, the purpose of this study was to uncover the effects of taxpayer education on tax compliance in Meru Town among SMEs. In particular, the study aim was to determine the effect of electronic taxpayers, taxpayer's awareness programs and print media education on tax compliance among small and medium-sized enterprises in Meru Town, Kenya. The theories used include Theory of Planned Behaviour, economic deterrence theory and vroom's expectancy theory. A stratified random sampling research design was used. The target population was 2,100 licensed SMEs in Meru Town according to Meru County Revenue Board (MCRB) county licensed sme's report 2019 statistics source; a sample size of 384 SMEs was selected. The data was distributed to administrators, compliance officers and accountants of SME companies through the use of standardized questionnaires. Using descriptive and inferential statistics, data was analysed and multiple regression model was used to assess the relationship between the research variables. The results showed an R squared of 0.683, suggesting that 68% of differences in tax compliance are explained by all predictor variables. The outcome also revealed that electronic taxpayer education ( $\beta_1 = 0.242$ ,  $P = .000$ ); stakeholder sensitization programme ( $\beta_2 = 0.349$ ,  $P = .000$ ); and print media education ( $\beta_3 = 0.132$ ,  $P = .014$ ) had a positive and significant effect on tax compliance among small and medium enterprises. The study concluded that when combined, electronic taxpayer education, stakeholder sensitization programme and print media education positively and significantly impact tax compliance among the small and medium enterprises. In particular, stakeholder sensitization programme was identified as the most significant predictor of tax compliance, followed by electronic taxpayer education and lastly print media education. The study recommended the need for the KRA management to strengthen aspects relating to electronic taxpayer education including having adequate tax materials in the internet, enhancing itax system and use of tax advertisements. It should also strengthen strategies relating to stakeholder sensitization programme such as seminars, workshops and road shows. Finally, the management should strengthen aspects relating to print media education including taxpaying culture, ethical attitudes and public awareness. This study makes significant contribution to theory, policy and practice in the area of tax education and compliance.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.0 Introduction**

This chapter presents the background of the study, statement of the problem, research objectives and research questions. The justification and scope of the study are also discussed.

### **1.1 Background of the study**

Tax is defined as a compulsory levy imposed by a government or a government appointed body (tax authority) on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return. On the other hand, tax may be viewed as a cost to the tax payer whether as an individual or a corporate body. However, there is a conflict in taxation whereby tax payers' desire to minimize costs and maximize profit, while government's desire is to maximize revenue through enhanced tax compliance. To strike a balance between the taxpayer and the tax collector, the latter need to come up with strategies and methods of simplifying tax procedures and requirements. One such strategy is the use of enhanced tax payer education. (Lymer & Oats, 2009).

Andreoni, Erard, and Feinstein (1998) claimed that tax compliance should be defined as taxpayers' willingness to obey tax laws in order to obtain the economic equilibrium of a country. Kirchler (2007) perceived a simpler definition in which tax compliance is defined as the most neutral term to describe taxpayers' willingness to pay their taxes willingly and honestly. Improved collection of taxes enables the Kenya government to provide fundamental services such as; Education, Medical services, improved infrastructure like roads and bridges, rural electrification, youth and women development funds, higher education loans board (HELB) funds and National budgetary expenditures to ensure Kenya's sovereignty by avoiding over dependence on donor funding who may

impose rigid conditions. Tax evasion can be defined as the failure by a person or business to comply with the tax obligations. It is a serious challenge to tax authorities in both the developed and developing countries. It diminishes the mobilization of resources that governments need to invest in critical areas of social and personal development including health, education and infrastructure development (Cummings, 2007). In 2011, it cost governments' worldwide about 5.1 % of their Gross domestic Product (GDP). Even in the most advanced economies in the world, tax evasion undermines revenue collection substantially (Rile, 2011). Among the three East African countries of Kenya, Uganda and Tanzania their informal economy constituted 33% of the GDP in the year 2011, while for Kenya it represented 7% of total government expenditure. The tax burden in Kenya would thus be high, standing at about 20.9%. If the Kenya government is to increase its social expenditure, then it needs to reduce tax evasion in the informal economy (Griffiths, 2005).

Taxpayer education can be described as a method of educating the people about the whole process of taxation and why they should pay tax (Aksnes, 2011). It assists taxpayers in meeting their tax obligations to the government. This means that the primary existence of taxpayer education is to encourage voluntary compliance amongst taxpayers. According to Misra (2004), the main objective of tax payer education is in three folds: impart knowledge as regards tax laws and compliance; change taxpayer's attitude towards taxation and increase tax collection through voluntary compliance. With Kenya Revenue Authority (KRA) as the main tax authority, Taxpayer Education Unit was formed in the year 2005. It was formerly known as Taxpayer Services under the Commissioner for Corporate Support Services. It then moved to the Marketing & Communication Division in 2008 as a section mandated with internal and external education. Its function is compiling and disseminating effective practices through advocacy programs to

stakeholders and taxpayers.

In Kenya, taxpayers are categorized as small, medium or large depending on their business turnover or levels of income. Irrespective of one's category, taxpayers in Kenya are required to comply with VAT, PAYE, Income Tax, Withholding Taxes and Customs duties in equal measure. Small and Medium enterprises (SMEs) are engines of growth, vital to most economies. Micro businesses and SMEs account for 95% of firms in most countries. In Kenya SMEs represent a vital part of the economy, being the source of various economic contributions through the generation of income via exporting, providing new job opportunities, stimulating competition, engine for employment, contribution to GDP, aid industrial development, satisfy local demand for services and introducing innovation and support to large firms with inputs and services. In 2014, 80% of jobs created were dominated by SMEs. The term micro and small enterprises (MSEs) or micro, small and medium enterprises (MSMEs), is used to refer to SMEs in Kenya. Under the Micro and Small Enterprise Act of 2012, micro enterprises have a maximum annual turnover of Kshs 500,000 and employ less than 10 people. Small enterprises have between Kshs 500,000 and 5 million annual turnovers and employ 10-49 people. Medium enterprises are not covered under the act, but have been reported as comprising of enterprises with a turnover of between Kshs 5 million and 800 million and employing 50-99 employees. SMEs' close proximity to their customers enables them to acquire knowledge in a more direct and faster flow compared to larger firms.

Tax Education to the SMEs becomes necessary when the objective of raising tax revenue, at the changing environment; particularly from the official tax assessment is considered (Normala, 2007). at the same time, achieving tax compliance and improving revenue generation is not an easy task. However, this problem can be minimized through tax

education (Allingham and Sandmo, 1972; Kimungu and Kileva, 2007). Some observed evidence on the ground shows that there have been hostilities between the taxpayers and tax collectors on issues relating to tax compliance. For example, tax evasion cases reported in Kenya's local newspaper (Daily Nation, July 7, 2006, page 3) showed an outward resistance from taxpayers, for instance, the recent protest by taxpayers over implementation of Electronic Tax Registers (ETR). Hostility towards tax compliance date back to the History of Taxation, "Taxes are considered a problem by everyone. Not surprising, taxation problems date back to the earliest recorded history" (Director, Taxworld Organization, April 7, 1999).

Kenya Revenue Authority has given special attention on the SMEs by simplification of the tax laws procedures, formation of associations, annual taxpayers appreciation day (Taxpayers month), and integrity enhancement as among the strategies (Kimungu and Kileva, 2007). Due to the fact that MT comprises of diverse population in which many people fall under the informal (jua kali) sector where tax compliance is a real issue that needs to be addressed by the revenue agency. The non-compliance may be unintentional, where the taxpayer is not aware of his/her tax obligations or fails to fulfill his/her tax obligations due to ignorance of tax laws and procedures or may be intentional due to the compliance attitudes. It is expected that, tax education will assist taxpayers to understand tax laws and procedures as well as creating positive tax compliance attitude (Christina, Deborah and Gray, 2003).

Taxpayer education will provide necessary tax knowledge to the SMEs which would enable them to comply with the tax matter and change the perceptions and attitudes towards tax compliance by creating more positive attitudes. Tax education component is expected to deal with non-compliance practice among the Small and Medium Enterprises (SMEs) in Meru Town. The study will be carried out within Meru Town

(MT) of Meru County.

### **1.1.1 Global perspective**

Across the globe, governments and tax administrations are developing innovative taxpayer education programmes to engage and inform taxpayers in order to enhance domestic resource mobilization. Building Tax Culture, Compliance and Citizenship, (OECD, 2015) depicts several countries that have entrenched tax education in the school system. Some of these initiatives include Peru's Master Strategy for Tax Education and the Tax fun for children in Malaysia has also been educating school children in tax literacy since 2000, while in Uganda; the tax curriculum was implemented in primary schools through a strategic partnership.

### **1.1.2 Local perspective**

There is every reason for schools to integrate tax education into the classroom. Tax education can be described as the provision of knowledge and skills aimed at changing people's attitude and perceptions toward taxation. It is the bridge that connects tax administrations and the public. The aim is to raise public awareness on new and existing tax laws, importance of paying taxes, and methods of filing tax returns. Mainstreaming of tax education in the curriculum should strive to change the attitudes and behaviors of learners towards taxation.

In Kenya, most taxpayers and learners have basic knowledge in taxation; however, there are repeated gaps in terms of meaning, sources, uses and administration of tax. To combat this disparity, KRA in the year 2005 embarked on a mission to educate, sensitize and demystify taxation to the public and enhance voluntary compliance. In 2012, the Authority launched a school outreach programme in a bid to nurture a tax paying culture from an early age. Contrary to expectations, the school outreach programme did not reach all the targeted learners due to resource related challenges. Additionally, it was

neither part of the formal nor non-formal curriculum.

## **1.2 Statement of the problem**

Low tax compliance is a major concern for the policy makers in many developing countries. This is because it limits the capacity of governments to raise revenue for developmental and recurrent expenditure purposes (Togler, 2015). This means that the higher the revenue to the government, the more likely the government will provide more services to enhance the standard of living of the people. Tax payer education is a tool designed to enable taxpayers to understand tax laws and procedures. It involves training of special units within the revenue departments; for providing education, counseling and support to the taxpayers, through different media which include newspapers, television, radio programs, websites, seminars and front desk help, these create more room to disseminate key information to the taxpayers. (Fjeldstad & Ranker, 2003).

Taxpayer education has provided a comprehensive awareness and information that has promoted partnership and voluntary compliance and further maximized revenue collection for national growth and development as well as broadening the tax base. For instance, as at midnight of Tuesday (30th June) 2015, the KRA's, taxpayer recruitment drive, anchored on online tax filings, had managed to register approximately two (2) million iTax users heralding a new dawn in the use of information technology systems for tax administration, this has broadened the tax base and increased the revenue generated (KRA media briefing, 2015). Greater education potentially increases compliance, as educated taxpayers are more aware of their responsibility as well as the sanctions to be imposed if they were not compliant with tax laws. Education levels become more important in increasing tax compliance across countries. One of the measures to increase voluntary compliance is by assuring that taxpayers have a certain level of

qualifications, ability and confidence to exercise their tax responsibility (Mohani, 2003).

Tax evasion hampers Kenya's government revenue collection, thus, inefficiency in government spending because it diminishes the capacity of the state to mobilize domestic revenues, resources that are needed for investments. In 2010, for example the amount lost to tax evasion represented about twice the amount the country spent on health care. Tax evasion also damages the country's growth capacity by discouraging both local and foreign investors. The high tax rate and burden in Kenya, which is related to the high levels of tax evasion, is the leading disincentive to business activity (Karingi, 2005). A report by Kenya Parliamentary Budget Office (2020) shows the Kenyan economy is currently facing significant challenges with the COVID-19 pandemic worsening an already dire situation. Indeed, the economy was already showing signs of distress even before the COVID pandemic.

The Budget Options for 2021/2022 recognizes these challenges to the economy and proposes some measures to reduce the expenditure pressures and accord the country some fiscal space. Micro, Small and Medium Enterprises (MSMEs) are the main drivers of the economy and a decline to supply of credit leads to GDP losses. There are 7.41 million Micro, Small and Medium Enterprises (MSMEs). The MSMEs contribute about 28.4 percent of GDP, employing up to 14.9 million (KNBS, 2017). The Big Four Agenda has identified Manufacturing as one of the four pillars that the country will focus on in the next five years to 2022. The overall goal is to raise the sector's contribution to GDP from 9 percent to 15 percent. The Agenda explores the intention of creating 1,000 SMEs with a goal of creating 200,000 new jobs by 2022. For growth of Small Medium-Term Enterprises (SMEs) to be achieved, supply of credit is key. In 2015, a study was conducted to establish effects of funding source on growth of Small and Medium Enterprises (SMEs) in

Kenya (Koech et al, 2015). The conclusion was that SMEs that get sufficient funding are able to increase employment, the number of branches, the inventory and the number of products.

Generally, if the informal sector remains untaxed, and as more people transition into the sector, the government is likely to continue losing billions of shillings. Such a scenario will impact on government's ability to achieve its revenue targets and consequently its development agenda. The question as to why some people pay tax while others do not has raised a lot of concern among economists, governments and tax administrators. Tax revenues have, for quite some time, remained low relative to the number of both registered and non-registered firms and individuals who are legally qualified to pay taxes. Continued low revenue collection levels for government is detrimental to economic development of this nation. (Cobham, 2005). A large segment of the informal sector, especially the SMEs in Meru Town exhibit low tax compliance levels. This is a great loss of revenues meant for public expenditure. It is for this reason that this research was undertaken to identify the effect of taxpayer Education on tax compliance among small and medium enterprises in Meru Town. It was also instructive to note that there was little research that has been done in this area. In this context SMEs in Meru Town exhibit low tax compliance levels and this required an understanding on how taxpayer education can boost tax compliance, to enable the government to improve on its tax collection among the SMEs in Meru Town.

Most of the studies in the area of tax compliance have concentrated on how to change the taxpayer behaviour towards more compliance using a mix of strategies, such as audit, deterrent measures of penalties and fines, as well as quality service delivery strategies. Only few studies have concentrated on how tax compliance behaviour is affected by one individual factor holding constant other influencing factors. What is not clearly brought out

among the studies is the effect of taxpayer education among the SMEs especially those falling within MT. The characteristic nature of SMEs poses a threat to the voluntary tax compliance. Tax education is being provided as one of the tool to enhance voluntary tax compliance among the entrepreneurs in the SMEs. Education on the level of voluntary tax compliance on SMEs, has not been fully elaborated as a method of enhancing tax compliance among the taxpayers, other strategies, such as audit, investigations and use of the presumptive taxes have been relied on to promote tax compliance among the SMEs. However, such methods cost a lot of money and time to the Revenue Authority. It may be possible that the increase in voluntary tax compliance is solely from other influencing factors than tax education (Revenue Performance Report, 2007/2008). While an attempt was made to establish the role of education in voluntary tax compliance, there were gaps in knowledge that required further studies. This study was carried out to further understand the effect of taxpayer education on tax compliance among the SMEs in Meru Town.

### **1.3 Objectives of the study**

#### **1.3.1 General objective**

The general objective of this study was to establish the effect of taxpayer education on tax compliance among small and medium enterprises in Meru Town.

#### **1.3.2 Specific Objectives**

- i. To determine the effect of electronic taxpayer education on tax compliance among SMEs in Meru Town.
- ii. To examine the effect of print media on tax compliance among Small and Medium Enterprises in Meru Town.
- iii. To determine the effect of taxpayer's sensitization programme on tax compliance among SMEs in Meru Town.

#### **1.4 Research Questions**

In order to address the objective of the study, the researcher had to seek answers of the following research questions:

- i. What is the effect of electronic taxpayer education on tax compliance among Small and Medium Enterprises in Meru Town?
- ii. What is the effect of print media on tax compliance among the SMEs in Meru Town?
- iii. What is the effect of taxpayer's sensitization programme on taxpayer education on Tax Compliance among SMEs in Meru Town?

#### **1.5 Justification of the Study**

An appraisal of the budgetary process by the National Treasury of Kenya shows that there is an imbalance the demand and supply of revenue. Appropriately revenue projection is necessary in order to manage the countries and counties fiscal deficit. The study enhanced the awareness of the relationship between tax compliance of SME's and an increase in tax revenue and economic growth. The study also contributed to existing literature on taxes in Kenya besides shedding light on how revenue productivity can increase the pace of Kenya's economic growth if the country is to achieve vision 2030 targets. Finally, it provided empirical evidence on the performance of taxes in the informal sector in Kenya which is important in the event that a review exercise of the current tax system and/or revenue projection is required.

#### **1.6 Significance of the Study**

The study findings documented how the business profile of SMEs Meru County in Kenya influences their tax compliance behavior. It also documented economic and social factors that affect small and medium-scale tax compliance. Through this, the government of Kenya, Kenya Revenue Authority and other stakeholders has a source of information for any further

studies and utilization, for an effective implementation of their tax collection strategies and initiatives. The study provided the Kenyan government policy makers with insights on the most critical factors to consider when for the purpose of an efficient and effective tax collection policies and an improved service delivery to the public. Therefore, the findings of this study not only provide vital information on further research in this area of study, but also contribute to the theoretical development of the field of tax compliance.

### **1.7 Scope of the study**

The study was limited to small and Medium Enterprises in Meru Town which was within the county of Meru. The population of Meru County is about 1 million Kenyans. The target population for this study was the taxpayers who deal with Small and medium businesses within the Meru Town. This will help in conducting the research on time, as opposed to large population which if adopted, could take more time and resources in drawing conclusion.

### **1.8 Limitation of the Study**

The target group was SME's business owners and tax cheat being a sensitive issue, there was a sense of secrecy and could not give any information without, but with a research introductory letter from campus that assured respondents that the information provided would be used for academic purpose only and would thereby be treated with confidentiality. This would have made many respondents not to return their filled questionnaires or provide certain crucial information which could affect the accuracy of the study findings.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter comprises of theoretical literature review, empirical literature review, and conceptual framework and concluded by presenting a statistical model.

#### **2.2 Theoretical Review**

It is commonly said that tax and death are inevitable in life. However, history has shown that individuals do not like paying taxes, and they take a variety of actions to reduce their tax liabilities, for example, by interpreting tax rules to their own advantage. A major concern that has been raised by taxpayers for not voluntarily complying with tax laws is that governments are not accountable to the taxes collected (Onuba, 2012). Low levels of tax compliance in developing countries to a great extent- have been attributed to low levels of tax payer education. Azubike (2009) argues that lack of information and enlightenment for taxpayers is a major problem as they are not sufficiently educated and enlightened on the provisions of the various tax laws.

Questions about tax compliance are as old as taxes themselves and will remain an area of discovery as long as taxes exist. There is almost no civilization that did not tax. Six thousand years ago, tax history started with records on clay cones in Sumer, with the inscription, "There were the tax collectors" (Adams, 1993). "History has shown that there has always been a reluctance to pay tax. A major reason for this attitude is that the taxpayer does not always perceive that he receives any benefits from parting with his hard earned cash. Most citizens, however, realize that state expenditure for the purpose of creating or maintaining national infrastructures, such as services and roads, is a necessity. But, citizens object to having to finance unnecessary state expenditure. In this regard, everyone has his own understanding of what is unnecessary. Taxpayers feel that whatever is contributed by way of tax is mostly

squandered away and the social responsibilities the government is expected to discharge get neglected. The government's bad image because of its failure to discharge functions is a great disincentive for paying taxes. The theories of tax compliance assume that psychological factors including morals and ethical concerns are also important to the taxpayers. There are several theories which have been expounded to explain tax compliance. The two theories explained here are theory of planned behaviour and economic deterrent theory.

### **2.2.1 Theory of Planned Behavior**

Theory of planned behavior (TPB) predicts an individual's intentions to engage in a behavior at a specific time and place. It posits that individual behavior is driven by behavior intentions, where behavior intentions are a function of three determinants: an individual's attitude towards, subjective norms and perceived behavioral control (Ajzen, 1991). It is the improved form of the Theory of Reason Action suggested by Ajzen and Fishbein (1980) in order to explain conscious behaviors. According to this theory, behaviors of the individuals within the society are under the influence of definite factors, originate from certain reasons and emerge in a planned way (Erten, 2002).

This is a psychological theory that links beliefs and behaviour, tries to explain human behaviour. The concept was proposed by Icek Ajzen (2002) to improve on the predictive power of the theory of reasoned action by including perceived behavioural control. According to this theory, the behaviour of individuals within the society is under the influence of definite factors which originate from certain reasons and emerge in a planned way. The ability to perform a particular behaviour depends on the fact that the individual has a purpose towards that behaviour (behavioural intention). Behavioural intention in turn depends on three factors that is Attitude towards the behaviour, Subjective norms and Perceived behavioural control.

Nevertheless, the ability to perform a particular behavior depends on the fact that the individual has a purpose towards that behavior. As for the factors determining the purpose towards the behavior, they are attitude towards behavior, subjective norms and perceived behavioral control (Erten, 2002). Factors counted above are also under the influence of behavioral beliefs, normative beliefs and control beliefs (Ajzen, 2002). According to this theory, performance of behavior or its transformation into a different behavior depend on the intention that the individual has generated towards the behavior. Ajzen, described intention as the factor indicating the degree of individual efforts in order to perform certain behavior (Ajzen, 1991). Intention is explained by attitudes towards behavior, individual norms and perceived behavior controls (Klee et al., 2000). Attitude includes the evaluations made by the individual who will perform the behavior regarding the act of that behavior. Subjective norm refers to the opinions of the other individuals who are important for individuals that will perform the behavior or are taken as reference as regards to this behavior.

Finally, perceived behavior control specifies the difficulty level of the performance displayed by an individual. This element can sometimes affect the behavior directly. For example, in case the behavior control does not depend on the desire of the individual, in other words, if there is any legal sanction, perceived behavior control can affect the behavior directly. As a conclusion, the Theory of Planned Behavior posits that individuals' intentions, together with their perceived control over the behavior determine whether or not they will actually engage in the behavior (Ajzen,1991).

These three factors are also under the influence of behavioural beliefs, normative beliefs and control beliefs. The focus of this theory therefore is on the taxpayer's morals and ethics. The theory suggests that a taxpayer may comply even when the probability of detection is low. As opposed to the economic theories that emphasize on increased audits

and penalties as solutions to compliance issues, psychological theories lay emphasis on changing individual attitudes towards tax systems.

### **2.2.2 Economic Deterrence Theory**

Becker theory (1968) postulated that if the profit of the crime itself is overwhelmed by the consequence of committing a crime, then the person would be stopped from committing the crime. The principle of economic deterrence, in its simple form, sees individual taxpayers as a rational economic agent who calculates the costs and fines of deception and the rewards of tax evasion and therefore chooses not to pay if the expense is outweighed by the benefit of non-compliance (Walsh, 2012).

Economic Deterrence theory is a theory under criminology and was developed by Becker (1968). This theory is based on the concept that, if the consequence of committing a crime outweighs the benefit of the crime itself, the individual will be deterred from committing the crime. This is founded in the idea that all individuals are aware of the difference between rights and wrong and the consequences associated with wrong or criminal behaviors'. Proponents of deterrence theory believe that people choose to obey or violate the law after calculating the gains and consequences of their actions.

Economic Deterrence model, one of the economic based models was developed by Allingham and Sandmo (1972) who extended the expected utility model of criminal activity originated by Becker (1968) to the tax arena. This model incorporates the concept of an economically rational taxpayer who will evade taxation as long as the pay-off from evading is greater than the expected cost of being caught (Allingham and Sandmo (1972). The implication of this principle is that where there are low audit probabilities and low fines, the pattern for avoidance will be higher, while if there is a strong trend for identification and fines are heavy, less people may evade taxes (Fieldstad, Schulz-

Herzenberg & Sjursen, 2012). Centered on this principle, the model recommends stricter auditing and strict sanctions for criminals as a framework for reducing non-compliance. However, in describing taxpayer enforcement, the hypothesis has also been criticized as not practical, as it assumes a general substantial non-compliance beyond what is currently obtainable (Slemrod, 2007).

The relevance of the economic deterrence theory is that, the government should consequently deter SMEs tax non-filers by ensuring that hefty and severe penalties and interests are charged to tax defaulters. Consequently, potentially, audits and fines for non-compliance should be enhanced in order to enhance compliance. This will make sure that all SMEs fill returns and payment of taxes due within the stipulated timelines. The costs of not filling returns should outweigh the benefit of evading taxes. Tax education can therefore be used to create awareness to the taxpayers on deterrence measures undertaken by the government in order to discourage non-compliance. The theory thus supports the connection between tax education and tax compliance.

### **2.2.3 Vroom's Expectancy Theory**

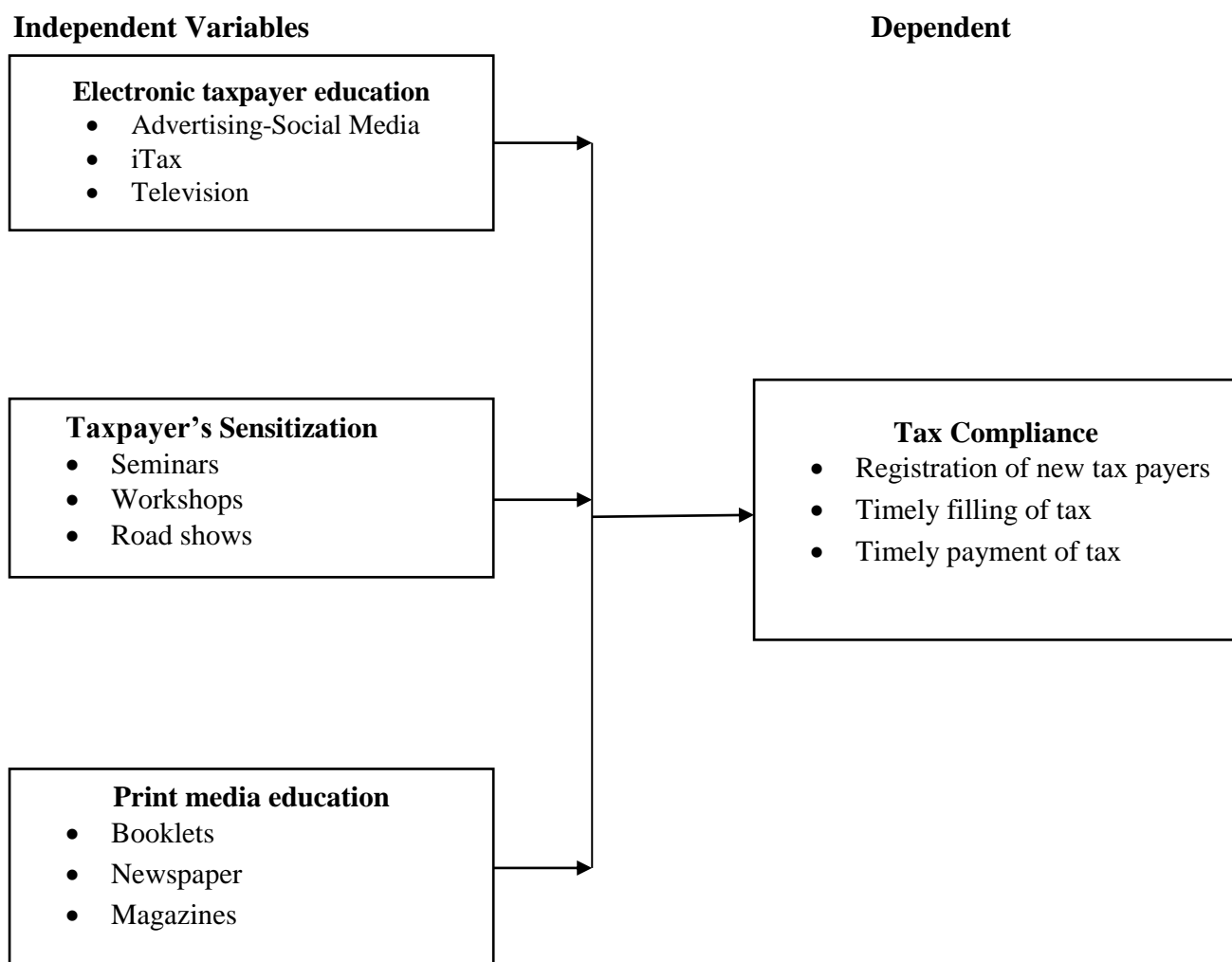
Theory was developed by Victor Vroom (2014) and postulates that action is the product of deliberate decisions between alternatives that are driven to maximize enjoyment and reduce pain. Vroom discovered that an employee's success depends on individual variables such as temperament, abilities, expertise, expertise and talents. The internal functions of desire or option are the subject of this hypothesis. This determines the protocols an entity undergoes to make a decision. Vroom defined motivation as a mechanism that governs choices among alternative types of voluntary activities, a person-controlled process. The person makes decisions based on estimates of how well the expected outcomes of a given action will align with the desired outcomes or ultimately

lead to them. Motivation is a result of the belief of the participant that the expected output will contribute to a certain effort (Hester & Adams, 2014).

The relevance of the theory to the study is that when taxpayers know tax compliance will bring desirable results that satisfy one or more of their important needs then they will be motivated to be paying taxes (Gaffney, 2018). It is the responsibility of the government to offer tax education to SMEs through seminars, workshops, media and stakeholders sensitization. Tax education will equip taxpayers with knowledge about tax and can contribute to shaping attitudes towards compliance for it will boost/motivate their morale to paying taxes leading to economic development that translates to a better standard of living (Murgaš & Böhm, 2015). The Vroom's expectancy theory therefore predicts a direct connection between tax education and tax compliance among SMEs.

### **2.3 Conceptual Framework**

Conceptual framework is a written or visual presentation that “explains either graphically, or in narrative form, the main things to be studied, the key factors, concepts or variables and the presumed relationship among them (Miles et al, 1999). It can also be defined as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation (Wong and Wai-Yee, 2015). The figure below shows the conceptual model depicting the nature of relationship between the independent variables and the dependent variable. As shown on figure I below:



**Figure 1: Conceptual framework**

**Source: Researcher 2021**

### **2.3.1 Tax Compliance**

Tax compliance is the extent to which the taxpaying community fulfils their duties and obligations as per the tax legal provisions (Maxwell, 2003). Tax compliance involves proper computation of taxes and payment as per the tax laws. Mohd et al (2011) defines Tax compliance is the fulfillment of tax laws, declaration of the correct income & expenses and the payment of taxes on time. From the above definitions, it can be concluded that tax compliance means complying with the tax laws, accurate declaration of income & expenses and timely settlement of tax liabilities. Tax compliance is measured in four ways that is registration, filing, computation and payment compliance. Registration compliance relates to

the portion registered taxpayers with the appropriate tax obligation. Filing compliance relates to the proportion of tax returns filed on time. Computation compliance measures the percent of the correct tax liability that is correctly computed and reported. Tax payment compliance measures the portion of the computed tax liability that is paid within the timelines of tax laws. Taxpayer facilitation involves the provision of taxpayer services giving proper guidelines, instructions, and simplified ways of filing tax returns, educating taxpayers on their rights, duties and obligations. Another definition of tax compliance is the voluntary & timely registration with the relevant tax obligation(s), submission of accurate tax returns, voluntary & timely settlement of tax and keeping accurate records as required by law.

Tax revenue plays a significant role in the economic growth of the country. Tax evasion and tax avoidance hampers revenue collection which leads to inefficiency in government operations. Tax evasion refers to the illegitimate intentional actions by taxpayers taken in order to reduce their tax liability. (Alm, 2012). Tax evasion is achieved through criminal acts of omission e.g. failure to register for VAT and acts of commission e.g. under declaration of sales, overstating expenses, claiming of personal expenses as if they are business expenses and misclassifying supplies to lower rates of tax. Also, a taxpayer can reduce his VAT liability by abusing the credit and refund mechanism. Tax reduction is the legal reduction of tax liabilities by employing tactics like splitting income and postponing payment of taxes (Martinez, 2001). Tax avoidance makes full advantage of loopholes in the taxation. Even though tax avoidance is anti-social and not patriotic, it remains legal unless laws are put in place to prohibit it

### **2.3.2 Taxpayer's Sensitization**

Taxpayer's sensitization covers a wide range of activities and actors – from government programs to encourage tax-compliant behavior, to efforts by business organizations to mobilize and represent the interests of their members on tax issues, to civil society initiatives

to bring citizens into policy debates on tax collection and redistribution. This source book concentrates on the efforts of national tax administrations to show citizens how to pay their taxes and why taxes should be paid, with strong links to the social expenditure side of the public finance equation. Recent studies, including by the OECD, indicate a link between tax morale – citizens’ perceptions of tax issues – and perceptions of the quality of social expenditures. In other words, people who receive good quality public services are more willing to pay their taxes (OECD/ECLAC, 2011). Low tax morale not only weakens citizens’ commitment to the common social project, it also reinforces a vicious cycle: people justify not paying their taxes on the grounds that the state is not keeping its side of the social bargain; this leads to insufficient revenue for improving services, services decline and so the cycle is perpetuated. (Building tax culture, compliance and citizenship © oecd/fiiapp 2015).

Although there is little research on tax education, recent studies have shown that taxpayers often have little understanding of how tax systems work (Kira 2017; Feldman et al. 2016; Tanui 2016). Using Afro barometer data on thirty-six African countries, Isbell (2017) reports that the majority of respondents have difficulty figuring out what taxes they owe to the government. While small taxpayers are likely to suffer more from lack of tax knowledge, large taxpayers and business associations are also not immune to this issue (Nalishebo and Halwampa 2014). Importantly, it is increasingly clear that tax knowledge is a key determinant of tax compliance (Palil 2010; Richardson 2006). This is even truer in countries where tax systems are complex and hard to navigate. As a result, there is an increasing awareness, especially amongst African tax specialists, that lack of tax education and knowledge is one of the key obstacles to voluntary tax compliance (Kira 2017; Nalishebo and Halwampa 2014; Tanui 2016).

However, lack of knowledge about tax rules and how they should be applied can affect tax compliance in two opposite ways. On the one hand, it can be associated with lower taxpayer

compliance, including both underreporting and failure to register (Kira 2017; Lubua 2014; Palil 2010). There is anecdotal evidence that businesses might think they do not have to register because they only run a small shop, or because they make very little profit. On the other hand, a limited understanding of the tax system could result in higher compliance costs or even overpayment. Tax administrations are turning to positive messages to inform taxpayers of their responsibilities. Many are helping them use new technologies and are launching new services to make it easier for taxpayers to comply. The massive scope of modern tax systems necessitates a new communication model that convinces taxpayers, rather than forcing them, to pay taxes. Citizens are seen more and more as allies than mere obligation holders. These efforts are especially relevant in those countries where tax administrations were historically perceived as coercive and repressive agents. However, while tax administrations may have changed, public perceptions may take some time to catch up. This new scenario has smoothed the way for tax administrations to take one step further: to connect tax compliance to citizenship and the values upholding collective responsibility and democratic co-existence. Taxpayer education in essence is not simply a strategy to collect more money, nor is it exclusively focused on explaining why tax should be paid. Rather, it tries to foster attitudes of commitment to the common good, emphasizing the social value of tax and its link to public expenditures. This includes highlighting how public money is used and the detrimental effects of tax fraud and corruption for the country and its citizens. Research – including the OECD/ITC study, *Tax and Development: Aid Modalities for Strengthening Tax Systems* (OECD, 2013) – notes that such taxpayer education campaigns can be an efficient and effective way of building trust and increasing public engagement.

### **2.3.3 Electronic taxpayer education**

Information technology (IT) provides strategic opportunities for improving and transforming the visions, processes and outputs (Gill, 2003). Tax systems in developing countries, like

those in more developed countries, face both new challenges and new possibilities as a result of technological change. Tax compliance procedures include all formal procedures and related activities that taxpayers have to observe to comply with tax obligations. Tax obligations are classified into four categories: Registration in the I-tax system, timely filing or lodging of the required taxation information, reporting complete and accurate information (including good recordkeeping), and Payment of taxes on time as per the requirement of the law. Economic theories on taxation hold that, taxpayers are amoral utility maximize. They are influenced by economic motives such as profit maximization, therefore, they analyze alternative compliance paths for instance whether or not to evade tax. Secondly there is a wide perception by the tax payer that tax is a burden especially the small and medium enterprises (Vihanto, 2010) Therefore, the use technology in compliance to taxation play a key role in determining taxpayers willingness to pay tax. Complexity of the various regulatory and administrative obligations that have to be observed by enterprises is one of the most common complaints by business organizations. Compared to larger companies, SMEs suffer disproportionately from the regulatory burden. This is because the smaller enterprises often do not have sufficient financial and human resources to manage their obligations in the most efficient way through itax. Tax obligations such as payment of taxes and other activities such as registration, documentation, reporting and recording constitute some of the most important requirements that enterprises have to comply with. Enterprises require either internal resources or external resources, e.g. tax consultants and accountants for their various tax compliance procedures. The technology factor presented by tax compliance is too vital to be underestimated. With the current hard task of ensuring efficient and effective tax administration.

#### **2.3.4 Print Media Education**

Aknes (2011), described tax education as a method of educating people about the whole process of taxation and why they should pay tax. Misra (2004), the main objective of tax payer education is in three folds: impart knowledge as regards tax laws and compliance; change taxpayer's attitude and increase tax collection through voluntary compliance. Fjeldstad and Ranke (2003) added that tax payer education is a tool designed to enable taxpayers to understand tax laws and procedures. It involves training of special units within the revenue departments; for providing education, counseling and support to the taxpayers, through different media which include newspapers, television, radio programs, websites, seminars and front desk help, these create more room to disseminate key information to the taxpayers. Therefore, It is one of the strategies of improving service delivery to taxpayer as it assists taxpayers in meeting their tax obligation to government. Fjeldstad and Ranker (2003), also stated that the existence of taxpayer education reduces costly and coercive method of tax enforcement by promoting voluntary tax compliance.

Negara (2019), suggested that noncompliance among small enterprises is due to lack of tax knowledge and awareness which hinders their tax reporting obligation. In the era of self-assessment in which taxpayer are given the trust to register, calculate, pay and report their tax rates, tax knowledge and awareness are key to the successful tax collection. While tax knowledge or education entails the whole process of taxation or, tax awareness consists of the understanding of the benefits of paying taxes, the assumption that the tax is a form of participation in supporting development of the country, the hope that paying taxes will help propel their business progress. Nurlis (2010) had earlier described some forms of consciousness of paying taxes that encourages taxpayers to pay taxes. First, the realization that tax is a form of participation in supporting development of the country. Taxpayer would pay tax because they know they are not disadvantaged in tax collection. Secondly, the

realization that delays in payment of taxes and reduction in tax burden is very detrimental to the country. This consciousness make taxpayer want to pay taxes because they understand that delay in paying tax and reduction of tax burden lead to lack financial resources which could delay development of the country. Thirdly, the realization that tax is a set of legislation and can be enforced. Knowing this, taxpayers would pay taxes because they understand that it has strong legal foundation and it is absolute duty of every citizen.

Furthermore, Saad (2014) stated that a lack of taxation understanding could cause taxpayer noncompliance behavior. Agustiniingsih & Isroah (2016) mentioned that taxpayer compliance could be measured through how much taxpayers understand all prevailing tax laws and regulations, and how taxpayers can carry out the procedure of submitting the tax correctly. Then, they proved that the level of taxation understanding affects positively and significantly to taxpayer compliance. Yee, Moorthy, & Choo (2017) stated that the understanding of taxation was a crucial factor that can influence taxpayer compliance behavior.

Tax compliance being key element in realization of revenue target, taxpayer education and awareness plays a very important role as it enable taxpayers especially small sector business which lack proper records and tax knowledge, pay their tax obligation. Tax education will create good faith to fulfill tax obligation. Susilawati and Budiarta 2013, stated that if taxpayers implemented taxation liabilities are sincere and honest and realize how taxes are for the growth and development of the region there will be no noncompliance in paying taxes. Gitaru and Kelvin (2017), noted that taxpayer education has provided a comprehensive awareness and information that has promoted partnership and voluntary compliance and further maximized revenue collection for national growth and development as well as broadening the tax base. Greater education potentially increases compliance, as educated taxpayers are more aware of their responsibility as well as the sanctions to be imposed if they

were not compliant with tax laws. Education levels become more important in increasing tax compliance across countries. Mohani (2003) suggested that assuring that taxpayers have a certain level of qualifications, ability and confidence to exercise their tax responsibility as one of the strategies of improving voluntary compliance. The non-compliance may be unintentional, in which case the taxpayer is not aware of his/her tax obligations or fails to fulfill his/her tax obligations due to ignorance of tax laws and procedures or may be intentional due to the compliance attitudes. Christina, Deborah and Gray (2003), suggest that it is tax education that will assist taxpayers to understand tax laws and procedures as well as creating positive tax compliance attitude.

Therefore, it expected that tax education would necessary knowledge and understanding to the small and medium enterprise businesses which enable them comply with the tax matter and change the perceptions and attitudes towards tax compliance by creating more positive attitudes.

## **2.4 Empirical Review**

### **2.4.1 Tax compliance**

Compliance refers to fulfilling all tax obligations as required by the tax laws. There has been no charging of taxes proportionately among small and medium enterprises (SMEs) internationally. High compliance costs, inadequate understanding, high tax rates and tax penalties are some of the variables that can lead to tax evasion and tax fraud. Their size, nature and operation make the issue of tax compliance critical among the SMEs. They are not well established in terms of resources and expertise. (Williams and Round, 2009) Persons fail to comply with tax laws either willingly or unwillingly. They include tax resisters and tax protesters. Tax protesters attempt to evade the payment of taxes using alternative interpretations of the tax law, while tax resisters refuse to pay a tax for conscientious reasons. SMEs are characterized by size, uncertainty, innovation and evolution. Proper

understanding of SMEs would require a good understanding of its operations (Webley, 2004).

Students are the leaders of tomorrow and therefore it is also a fact that SMEs are the blue chips companies of tomorrow. Most well established companies started as small and medium enterprises. Therefore, the stepping stone of big companies is likely to be small and medium enterprise. Developing countries like Kenya should heavily encourage the SMEs and other private sectors in order to promote the business performance within and outside Africa. Their problem was addressed to the letter in order to create a very conducive environment for them to operate. In other words they should be looked from the eye of success but not from the eye of failure. A conducive environment for the business is the best because economy wise the country tend to grow (Hijattullah and Pope, 2008).

The fundamental purpose of taxation is to raise revenue. In order to achieve this objective the tax system should be effective and efficient to ensure that SMEs are not negatively affected. The society should also not complain. Many of the difficulties with the tax authorities are the consequence of poorly set tax systems and policies. Proper research should be done before employing any tax policy in order to have properly working tax system. The objective of a tax policy should be to abide with tax laws. (James & Alley, 2004).

Most of the Kenya SMEs enterprises operate within the informal economy, a sector previously referred to as informal sector, or in the Kenya context, Jua Kali. The Kenya Labour Force Survey Report of 1998/99 indicates that the sector covers all semi-organized and unregulated activities that are small scale in terms of employment. The report noted that the SMEs activities are largely undertaken by self-employed persons or employees with few workers in the open markets, in market stalls, in both developed and

undeveloped premises and also on street pavements (ROK, Labour Force Survey, 2003). Hall & Harvie (2003) argued that small and medium enterprises play an important role in creating jobs, social uplifting and building a flexible and adaptable base for an internationally competitive economy. SMEs are stipulated to attract significant attention from policy makers in terms of industrial renewal, employment creation, export growth and productivity in the economy of the country. The contribution of SMEs in developed countries is also very important and it is considered as the main source of employment and income generation (Shelley, 2004). Therefore, the contribution of SMEs is highly recognized at the global level and this has alerted authorities around the world to give more focus on SMEs (Eeden, 2004). According to RoK (2012) SMEs contributed to seventy percent of the Gross Domestic Product (GDP) in 2011 in Kenya.

The SMEs sector in Kenya employs over 80% and is currently receiving a lot of government attention as it's seen as the solution to the crippling unemployment especially for the youth. Over 65% of Kenyan population is youthful and unemployed. In 2008, Kenya experienced the post-election violence which left over 1,000 people dead and 500,000 displaced. And while this might have been politically instigated, the fuel was the youth unemployment and the grinding poverty. This realization has re-energized the government's resolve to address the unemployment with such initiatives as *kazi kwa vijana*.

The SMEs in Meru Town are characterized by a variety of shops, including; miraa joints, restaurants, bars, boutiques, food vendors, electronic, cyber, chemist, salon/barbers, Shoe shines, transport (taxi), airtime, tailoring, small scale industries, hotels and guest houses and provision of social services such as health, recreational and educational facilities. The informal sector is estimated to constitute 98% of business in Kenya, contributing 30% of jobs and 3% of Kenya's GDP. The government recognizes the role

of the informal sector and seeks ways to integrate these businesses into the formal sector. Doing Business in Kenya with ease requires businesses to be registered has a bearing on the number of entrepreneurs who start businesses in the formal sector, leading to jobs and more government revenue (Adefolake Adeyeye, 2016). The legal requirements for registration of an SME include registration of the company name with the Registrar of Companies, acquiring a Personal Identification Number (PIN) and Value Added Tax (VAT) with the Kenya Revenue Authority (KRA), Trade License with the ministry of Trade, and finally the Local authority licenses. Nonetheless, SMEs within Meru Town take an advantage of their small sizes by not declaring and submitting their tax return to the Kenya Revenue Authority, most of them are tax non-compliant. Taxpayer education is undertaken to make them more knowledgeable on importance of paying taxes to the government.

#### **2.4.2 Electronic Taxpayer Education and Tax Compliance**

Christina, Deborah and Gray (2003), conducted a study to determine the economic and behavioural factors affecting tax compliance among taxpayers. The objective of this study is to determine the effect of taxpayer education on SME's tax compliance. Using questionnaires administered to the participants of this amnesty program, the respondents identified factors that made them not to pay their taxes due, within the statutory period and not declaring the correct taxable income as; complexity of the tax laws, ability to pay, ignorance of the tax laws and the perceptions of high tax rates and unfairness of the tax system. According to (Sas, 2007) a holistic view of taxpayers through use of electronic means would facilitate compliance by use of dynamic comprehensive approaches. Study supports that this approach would enable an organization gain a single view of the tax payer; increase auditor efficiency; enhance policy analysis ability and improve performance management.

Lai Ming; Ling Nuruld and Hidayah Aham and Nawawi, (2010), sought to examine the ICT skills needed by a fresh accounting graduate when first joining a tax firm; to find out usage of electronic tax (e-tax) applications in tax practice; to assess the rating of senior tax practitioners on fresh graduates' ICT and e-tax applications skills; and to solicit tax practitioners' opinion regarding integrating ICT skills and tax software into a tax course. The study adopted survey research design that was conducted online by use of questionnaires. The study found out that knowledge of ICT and electronic tax systems among students had positive impact on compliance. Such electronic media `broadcast or storage media that take advantage of electronic technology may include television, radio, internet, fax, CD-ROMs, DVD and any other media that requires electricity or digital encoding of information. Electronic media is often used in contrast with print media.

#### **2.4.3 Print Media Taxpayer education and tax compliance**

Angus Young, et.al, (2016) paper sought to review research about Kenya's individual tax compliance. While empirical research in this jurisdiction is still in its infancy, the scale of the problem might be under estimated, or at least over looked. The effectiveness of media campaigns in the TV, use of tax information magazines, business customers/prospects and national newspapers will enhance awareness, tax filing, and ultimately tax morale among the tax payers.

Clear scope of work- Periods and records to be covered have been clearly defined under tax laws which are advertised under print media channels, Returning of confiscated tax payers records; the law requires KRA to return such records within 6 months. Reports are now standardized containing relevant and key information. Reports shall now be digitally and centrally filed with all concerned departments having access. This will help in compliance follow-ups and avoiding repeat of audits. (<http://www.kenyaflowercouncil.org>).

#### **2.4.4 Taxpayer's sensitization programme and tax compliance**

Kenya Revenue Authority (KRA) holds workshops to sensitize tax payers on tax compliance. This is usually conducted under taxpayer engagement strategy with objectives of; enhancing the taxpayers understanding needs and concerns by collating and analyzing views and opinions from such engagements to inform the Authority's continued transformation and risk mitigations efforts across all levels of the Authority, enhance taxpayers' understanding of the Authority's administrative process by educating the taxpayers about their obligations and how to fulfill them and communicating clearly the outcomes or benefits of interventions and innovations by KRA that reduce transaction cost and time.

The following activities are also conducted i) Taxpayer Mapping including the ranking of all possible taxpayer's in order of their influence on tax compliance, ii) Identifying, organizing and facilitating appropriate structured meetings in the form of forums conferences, peer reviews and workshops, iii) Drawing Memoranda of Understanding between KRA and identified stakeholders to formalize partnership agreements and collaboration efforts and lastly responding to queries and requests for information from all stakeholders and partners. (<http://www.kra.go.ke/portal>). SMEs in Meru Town are key taxpayer's in tax matters and can affect or are affected by tax organization's actions, objectives and policies; as such taxpayer education through seminars and other stakeholder methods help them to be more tax compliant.

#### **2.5 Critique of the existing literature**

From the review of the literature, it is clear that there has been research exploring factors influencing tax compliance among SMEs. The main objective of this research will be to find out the effect of taxpayer education on tax compliance in SMEs. An observation from similar existing studies reveals that tax compliance is influenced by various factors

identified from the empirical studies showing how they influence on tax compliance. The study will only focus on SMEs. However, it can also be on other lines of business to obtain objective conclusions on the global position.

The study will only concentrate on taxpayer education while there are existing different taxes heads under income taxes which have significance influence on compliance.

## **2.6 Summary of Literature Review**

The theories of tax compliance assume that psychological factors are also important to the taxpayers. They include the Theory of Planned Behaviour, which is the successor to the Vroom's Expectancy of Victor Vroom (2014) and the Economic Deterrence theory which is a theory under criminology developed by Becker (1968). Economic Deterrence model, one of the economic based models was developed by Allingham and Sandom (2013) who extended the expected utility model of criminal activity originated by Becker (1968) to the tax arena. Some literature like Allingham and Sandmo (2014), and Andreoni *et al*, (2015) characterize and explain PAYE tax compliance as the output of interrelation among variables including perception of equity, efficiency and incidence (public finance views). Norman and Ratto, (2012) distinguish two main approaches: studies that consider the effects of experiencing an audit and studies that consider the effects of an increased probability, or threat, of an audit. The Slemrod, Blumenthal, and Christian (2016) analysis of the effects of a threat of an audit is one of only a few studies that examine actual PAYE taxpayer responses.

Alm,et.al., (2017), used experimental approaches to examine how "official" information from the tax authority and "unofficial" information from other taxpayers affects PAYE compliance choices. The level of PAYE tax knowledge is of importance to the way people comprehend the reality underlying taxation and the associated attitude to taxation that is expressed (Mohd, 2015).

According to Eriksen and Fallan (2013), better PAYE tax knowledge accounts, at least in part for the improved perception of fairness and attitudes to other's tax evasion. Blum and Kalven (2014); Keene (2016) have suggested that the complexities of progressive taxation may not be well understood by the general public. Education attainment is an important determinant of tax evasion (Richardson, 2006). It usually relates to a taxpayer's ability to comprehend and comply or not comply with income tax laws (Jackson & Milliron, 1986). Higher PAYE tax knowledge is also assumed to lead to higher PAYE compliance rates (Carnes & Cuccia, 1996). According to Eriksen and Fallan (1996), as the level of PAYE tax knowledge increases, the rate of tax evasion is decreased, and the level of PAYE tax compliance becomes much higher.

The idea of commitment is an important one for PAYE compliance to be achieved. What seems to be needed is the commitment of the members of the organization to the PAYE system and its objectives. Although definitions of commitment do vary somewhat, the three major components appear to be; a sense of identification with the commitment object, a sense of involvement and psychological immersion in one's work resulting into considerable enjoyment, and a sense of loyalty, perhaps even affection, towards the particular object. In a study by Hrebiniak, (1974), he found such commitment to be present in those who basically trust their organization, and who have a clear understanding of what they are expected to do.

## **2.7 Research Gaps**

Both National and County governments today are grappling with tax non-compliance in various subsectors of the economy. Like in other literatures, SECO (2016) and World Bank (2015) clearly support this argument. However, a number of studies have focused on a number of factors at the same time, hence denying them an opportunity to critically interrogate the role of taxpayer education in the whole question of tax compliance or noncompliance. Small and Medium Enterprises sector in Kenya has significantly grown, but

taxation in this sector still remains not clearly and robustly featured in studies. In their studies, Benk et al. (2011) noted that coercion and threats with legal consequences are some of the common strategies to influence tax compliance. Other studies have observed that governments have tended to use persuasive approaches to implore taxpayers to heed their tax obligations (Anyaduba et al., 2012). Equally, some studies have alluded to the importance of tax education among taxpayers in influencing tax compliance (Akhand & Hubbard, 2016). However, a lot still remains unexplored, especially with respect to advantages and/or disadvantages of using technology in tax processing and administration, especially from the taxpayer's point of view. Hence, this study proposes to focus on tax education with respect to registration, filing and payment of taxes by the SME's in Meru town.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research methodology is a system of rules and procedures upon which research is based and against which claims for knowledge are evaluated (Nachmias, 1996). This chapter outlines how the research was conducted. It contains the research design, target population, sampling design and procedures, data collection instruments and data analysis and interpretation and presentation.

#### **3.2 Research Design**

Robson (2002) describes a research design as to establish the overall scheme or program of the research. The study employed a descriptive research design. According to Kothari (2012), descriptive research design includes enquiries on phenomena or association among them and describes the data in order to draw conclusions about the population being studied. This descriptive research design was appropriate for the study because it concentrated on the effect of tax education on small and medium enterprises tax compliance in Meru town

#### **3.3 Target Population**

According to Mugenda and Mugenda (2003), a population refers to an entire group of individuals, events or objects having common observable characteristics. The study targeted small and medium enterprises in Meru Town. The study focused on a target population of 2,100 registered SME's according to Kenya Bureau of Statistics (KNBS) report 2019 and out it a sample size of 384 SMEs taxpayers within Meru Town was the subject of the study

#### **3.4 Sample Frame**

The sampling for any probability sample is a whole list of entire cases in the population from which sample is derived (Saunders, Lewis and Thornhill, (2003). The sample frame was clearly defined as the SMEs in Meru Town whose tax compliance was under review.

### **3.5 Sample and Sampling Technique**

An optimum sample is one that fulfils the requirements of efficiency, representativeness, reliability and flexibility. According to Mugenda and Mugenda (2003) a large population requires a formula to come up with the sample. This research used stratified random sampling method in gathering information from the respondents. Stratified random sampling technique ensured that all categories of SMEs in Meru Town are included in the sample. Stratification achieved this by grouping the heterogeneous population into homogenous subsets which ensured representativeness. Random sampling technique was then used to sample individual taxpayers within the stratum as it eliminated bias since each member of the target population had an equal chance or probability of being selected.

### **3.6 Data Collection Instruments**

The study collected primary data by use of questionnaires that was open and close-ended questions for qualitative and quantitative data. Borgad Gall (1998) argues that a questionnaire is a suitable data collection tool because it gives the respondents freedom to express their views freely and accurately. Structured questionnaire was used to collect responses. The questionnaires were pretested before final data collection was done to ensure adequacy of the instruments.

### **3.7 Data Collection Procedure**

Kerlinger (1953) argues that validity of an instrument is demonstrated when that instrument performs its designed purpose. Validity answers the question; ‘are the findings true?’ A study instrument was availed to selected SME’s. The study used random sampling techniques to create equivalent representative sample that are essentially similar in all the relevant variables that could influence dependent variable.

Reliability is the consistency of a set of measurement items (Cronbach, 1951). Reliability is the consistency of measurement, or the degree to which an instrument measures the same

way each time it is used under the same condition with the same subjects. A measure is considered reliable if a person's score on the same test given twice is similar. According to Cooper and Schindler (2013) the respondents in a pilot test do not have to be statistically selected when testing the validity and reliability of the instruments. The researcher collected primary data which was analyzed and was obtained by use of structured questionnaire containing close-ended questions

### **3.8 Pilot Testing**

According to Creswell (2013), 10 percent is representative enough for pilot testing. Pilot test was undertaken on at least 38 SME's of the target population. The respondents selected for the pilot exercise did not form part of the sample size under study. A pilot study was done to assess the capability (reliability and validity) of the research instrument. Pilot study helps test the feasibility of the study techniques in order to perfect the questionnaire concepts and wording. Cooper and Schindler (2010) indicate that a pilot test is conducted to detect weaknesses in design and instrumentation and to provide proxy data for selection of a probability sample. According to Orodho (2012), once the questionnaire has been constructed, it should be tried out in the field in order to remove any ambiguity and other deficiencies in the questionnaire. Pilot study was conducted when a questionnaire was given to just a few people with an intention of pre-testing the questions (reliability and validity of the questionnaire). Pilot test is an activity that assists the research in determining if there are flaws, limitations, or other weaknesses within the interview design and allows the researcher to make necessary revisions prior to the implementation of the study.

### **3.9 Data Analysis**

The filled-in questionnaires were edited for consistency. The data generated was in form of qualitative and quantitative. Frequency tables were produced and presented by use of tables, graphs & bar charts in order to explain the effect of taxpayer education on small and medium

enterprises tax compliance in meru town. Therefore, descriptive analysis techniques were used consistently with the research design. Using Statistical Package for Social Sciences (SPSS), the quantitative data was coded to enable the responses to be grouped into categories. Descriptive statistics such as frequencies and percentages was adopted to summarize the data. A correction analysis was performed to determine the effect of the independent variables on the dependent variable.

Regression analysis is a set of statistical processes for estimating the relationships among variables. Regression analysis was used to understand which among the independent variables are related to the dependent variable, and to explore the forms of these relationships. In restricted circumstances, regression analysis can be used to infer causal relationships between the independent and dependent variables. The multiple regression model was therefore;

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

Where,

Y = Tax Compliance

$\alpha$  = Constants

$\beta_1 \dots \beta_3$  = the slope which represents the degree with which tax compliance changes as the independent variable change by one unit variables.

$X_1$  = electronic taxpayer education (advertisement and news)

$X_2$  = Print media taxpayer education

$X_3$  = Taxpayer engagements

$\varepsilon$  = error term

## CHAPTER FOUR

### DATA ANALYSIS, INTERPRETATION AND PRESENTATION

#### 4.1 Introduction

In this chapter, findings are presented as per the study objectives. The outcomes are also interpreted and discussed with reference to reviewed empirical literature in chapter two. The aim of the study was to establish the effects of tax education on tax compliance among the small and medium enterprises in Meru Town in county of Meru.

##### 4.1.1 Response Rate

This section presents the response rate from the questionnaires administered.

**Table 4.1: Response Rate**

Category	Frequency	Percentage
Returned	284	74
Unreturned	100	26
<b>Total</b>	<b>384</b>	<b>100</b>

**Source: Research Data, (2021)**

Out of the 384 questionnaires administered to the respondents, 284 were properly filled and returned. This represented 74% response rate. The other questionnaires were either unreturned or not valid. A return rate above 50% is adequate for analysis (Mugenda & Mugenda, 2003).

##### 4.1.2 Results of Pilot Study

Reliability of the data was determined using internal consistency measure, that is, Cronbach's Alpha, which was computed using the SPSS software. The results are in Table 4.2.

**Table 4.2: Reliability and Validity Results**

Cronbach's Alpha	N of Items	Comment
.891	22	Reliable

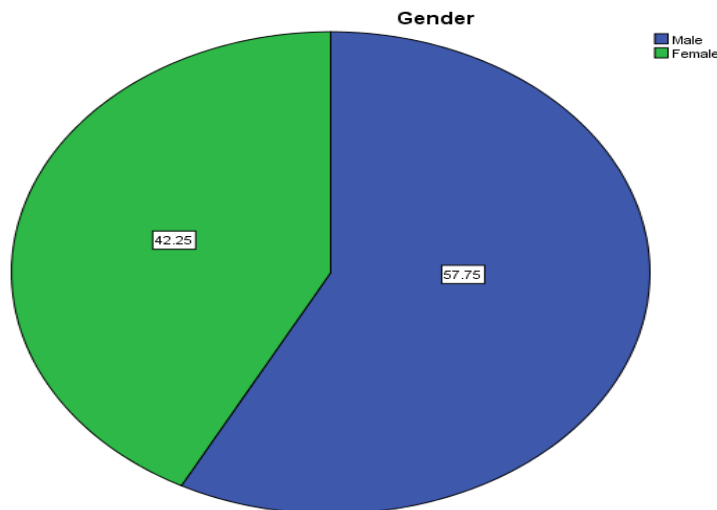
**Source: Research Data, (2021)**

The alpha value of Cronbach was 0.891. The correlation coefficient above 0.7 was adequate and suggested worthwhile data reliability, according to Bhattacharjee (2012). The elements in the questionnaire were, thus, accurate.

## 4.2 Demographic Information

### 4.2.1 Sex of the Respondents

The results in Table 4.3 show that there were more male respondents (164, 57.75 percent) than female respondents (120, 42.25 percent) who took part in this survey. However, the constitutional provision of at least a third representation of each gender was satisfied by the gender composition.



**Figure 4.1: Sex of the Respondents**

**Source: Research Data, (2021)**

### 4.2.2 Level of Education

The findings also reveal that majority (149, 52.5 percent) of the participants had attained diploma level of education, (99, 34.9 percent) had degrees while (28, 9.9 percent) had secondary level education. The expectation is that individuals with higher education are more likely to be tax compliant since they have knowledge about taxation. In this research therefore, majority of the respondents were expected to be tax compliant given their level of education.

Further, the findings show that (98, 34.5%) of the participants had operated their businesses for more than seven years, while (69, 24.3%) had been in business for 6 to 7 years. This suggests that most of the participants have been in business for over 5 years. As such, they have most probably heard from different sources about taxes and tax enforcement, and are thus likely to be tax compliant.

**Table 4.3 Level of Education**

<b>Level of Education</b>	<b>Frequency</b>	<b>Percent</b>
Primary	2	0.7
Secondary	28	9.9
Diploma	149	52.5
Degree	99	34.9
Masters	6	2
<b>Total</b>	<b>284</b>	<b>100</b>

**Source: Research Data, (2021)**

#### **4.2.3 Respondents' Years of Operating Business**

Further, the findings show that (98, 35%) of the participants had operated their businesses for more than seven years, while (69, 24%) had been in business for 6 to 7 years. This suggests that most of the participants have been in business for over 5 years. As such, they have most probably heard from different sources about taxes and tax enforcement, and are thus likely to be tax compliant.

**Table 4.4 Respondents' Years of Operating Business**

<b>Years</b>	<b>Frequency</b>	<b>Percentages</b>
Less than 1 year	53	18
2 to 5 years	64	23
6 to 7 years	69	24
More than 7 years	98	35
<b>Total</b>	<b>284</b>	<b>100</b>

**Source: Research Data, (2021)**

#### **4.3 Descriptive Analysis**

Descriptive analysis results for the study variables are given in this section. Aggregate mean and standard deviation are included in the basic descriptive statistics.

### 4.3.1 Electronic Taxpayer Education

The results in Table 4.5 show that the majority of participants with an overall mean score of 3.4 agreed with a variety of electronic taxpayer education claims. They were in agreement with the following three statements: there are enough tax payer education materials in the internet as represented with a mean of 4.2 and a standard deviation of 1.0; respondents agreed that i- tax system has lessons on how to fill returns as expressed by the mean of 4.0 with a standard deviation of 1.0; tax adverts are more informative about taxes matters also indicated by a mean of 3.9 and a standard deviation of 1.2. On the other hand, most of the respondents disagreed with the statement that radio is more informative on tax matters as expressed by a mean of 2.5 and a standard deviation of 1.1; and lastly electronic tax education through television offer tax training programmes also illustrated low outcome as expressed by a mean of 2.5 and a standard deviation of 1.1. This implies that the respondents acknowledge the role of electronic platforms as a way of providing education to taxpayers. This is expected to enhance tax compliance among taxpayers.

**Table 4.5: Electronic Taxpayer Education**

<b>Statements</b>	<b>N=284</b>	<b>Mean</b>	<b>Standard Deviation</b>
There are enough tax payer education materials in the internet.		4.2	1.0
Radio is more informative on tax matters.		2.5	1.1
Television offer tax training programmes.		2.5	1.1
I tax system has lessons on how to fill returns.		4.0	1.0
Tax adverts are more informative about taxes matters.		3.9	1.2
Aggregate mean		<b>3.4</b>	<b>1.1</b>

**Source: Research Data, (2021)**

### 4.3.2 Taxpayer's Sensitization Programme

The second objective of the study was to determine the effect of taxpayer's sensitization

programme on tax compliance among the SMEs in Meru Town in Meru County.

Table 4.6 findings indicate that most participants with an aggregate mean score of 4.1 agreed with statements on sensitization initiatives for taxpayer's. They were in agreement with the following statements: seminars/workshops provides room for discussion over tax audits and prosecution as represented by a mean of 4.1 and a standard deviation of 1.0; sensitization of taxpayers has played a critical role in improving taxpayer perceptions was indicated by a mean of 4.2 and a standard deviation of 1.0; taxpayer's sensitization programmes through road shows have influenced decision to pay tax was represented by a mean of 4.1 and a standard deviation of 1.0; seminars provides discussions that helps to understand the tax laws as shown by a mean of 4.2 and a standard deviation of 1.0; and sensitization through workshops are more informative and allow the public enough time to conceptualize the idea was represented by a mean of 4.1 and a standard deviation of 1.1. This implies that the respondents appreciate the role of taxpayer's sensitization programmes in driving tax compliance. The key taxpayer's sensitization programmes aspects include seminars, workshops and road shows.

**Table 4.5: Taxpayer's Sensitization Programme**

<b>Statements</b>	<b>N=284</b>	<b>Mean</b>	<b>Standard Deviation</b>
Seminars/workshops provides room for discussion over tax audits and prosecution		4.1	1.0
Taxpayer sensitization has played a vital role in changing the attitudes of taxpayers.		4.2	1.0
Road shows have Influenced decision to pay tax		4.1	1.0
Seminars Provides discussions that helps to understand the tax laws		4.2	1.0
Workshops and seminars are more detailed and provide ample time for the public to conceptualize idea		4.1	1.1
<b>Aggregate mean</b>		<b>4.1</b>	<b>1.0</b>

**Source: Research Data, (2021)**

### **4.3.3 Print Media Education**

The third objective of the study was to establish the effects of print media education on tax compliance for small and medium-sized enterprises in Meru Town in Meru County. Table 4.6 illustrates the results.

The results in Table 4.6 show that most respondents agreed with claims on print media education with an aggregate mean score of 4.1. Respondents were in agreement with the following statements: that print media education increases public awareness especially on matters concerning taxation laws as it was indicated by a mean of 4.1 with a standard deviation of 1.0; print media helps to influence taxpaying culture was illustrated by a mean of 4.1 with a standard deviation of 1.0; the respondents also agreed that print media creates tax payment reasons awareness as indicated by a mean of 4.2 with a standard deviation of 1.0; respondents strongly agreed that print media helps in easy understanding of legal tax requirements as represented a mean of 4.1 with a standard deviation of 1.1; print media increases the level of tax compliance as shown by a mean of 4.2 and a standard deviation of 1.0; and lastly print media impact of ethical attitudes on tax as indicated by a mean of 4.1 with a standard deviation of 0.9. This implies that the respondents appreciate the contribution of print media towards taxpayer education. In particular, print media education enhances public awareness, taxpaying culture, legal tax requirements and ethical attitudes of the taxpayers. Print media is therefore expected to promote tax compliance among the small and medium enterprises' owners.

**Table 4.6: Print Media Education**

<b>Statements</b>	<b>N=284</b>	<b>Mean</b>	<b>Standard Deviation</b>
Increases public awareness especially on matters concerning taxation laws.		4.1	1.0
Helps to Influence taxpaying culture.		4.1	1.0
Creates tax payment reasons awareness		4.2	1.0
Helps in easy understanding of legal tax requirements		4.1	1.1
Increases the level of tax compliance.		4.2	1.0
Influence of ethical attitudes on the tax compliance		4.1	0.9
<b>Aggregate mean</b>		<b>4.1</b>	<b>1.0</b>

**Source: Research Data, (2021)**

#### 4.3.4 Tax compliance

The dependent variable in the study was tax compliance among small and medium enterprises in Meru Town in Meru County. Table 4.7 shows the findings.

**Table 4.7: Tax compliance**

<b>Statements</b>	<b>N=284</b>	<b>Mean</b>	<b>Standard Deviation</b>
Penalties and interests imposed are sufficient to deter people from regularly evading income tax		4.2	0.9
The tax return is easy and simple to complete		4.1	1.1
The tax systems are friendly and stable		4.3	0.9
I am fully satisfied with all requirements imposed by KRA		4.2	0.9
Strong KRA compliance and punishment can result if I do not comply with it.		4.3	0.9
Payment of tax has been made easier through e slip		4.3	0.9
<b>Aggregate mean</b>		<b>4.2</b>	<b>0.9</b>

**Source: Research Data, (2021)**

The results in Table 4.7 indicate that most respondents agreed to tax compliance statements with an aggregate mean score of 4.2. They were in agreement with the following statements: penalties and interests imposed are sufficient to deter people from regularly evading income tax with a mean of 4.2 and a standard deviation of 0.9, the tax return is easy and simple to complete as represented by a mean of 4.1 with a standard deviation of 1.1; the tax systems are

friendly and stable as indicated by a mean of 4.3 and an standard deviation of 0.9; respondents indicated they are fully satisfied with all requirements imposed by KRA as indicated with a mean of 4.2 and a standard deviation of 0.9, strong KRA compliance and punishment can result if I do not comply with it as respondents strongly agreed with a mean score of 4.3 and a standard deviation of 0.9; and payment of tax has been made easier through e slip as indicated by a mean of 4.3 and a standard deviation of 0.9. This implies that the respondents acknowledge the effort KRA has made to enhance tax compliance. The use of penalties and interests, strict enforcements measures, use of e-system and simplified procedures were identified as critical in determining tax compliance.

#### 4.4 Inferential Analysis

##### 4.4.1 Correlation analysis

The study undertook correlation matrix analysis to examine the correlation between the independent variables; electronic taxpayer educations, taxpayer’s sensitization programme, print media education and dependent variable - tax compliance.

**Table 4.8 Taxpayer’s Education and Tax compliance**

		Y	X1	X2	X3
Y	Pearson Correlation	1			
	Sig. (2-tailed)				
X1	Pearson Correlation	.767**	1		
	Sig. (2-tailed)	.000			
X2	Pearson Correlation	.782**	.775**	1	
	Sig. (2-tailed)	.000	.000		
X3	Pearson Correlation	.745**	.728**	.785**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	284	284	284	284

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

**Source: Research Data (2021)**

The outcome in Table 4.8 indicate that electronic taxpayer education, x1 ( $r = .767^{**}$ ,  $P = .000$ ), had a strong direct and meaningful association with tax compliance (Y). The P value shows that connection between the two variables is strong. This implies that increase in

electronic taxpayer education is significantly correlated with increase in tax compliance among SMEs.

The findings also reveal that taxpayer’s sensitization programme, X2 ( $r = .782^{**}$ ,  $P = .000$ ), had a strong direct and meaningful association with tax compliance (Y). The P value shows that connection between the two variables is strong. This implies that increase in taxpayer’s sensitization programme is significantly correlated with rise in tax compliance among SMEs.

The findings further reveal that print media education, X3 ( $r = .745^{**}$ ,  $P = .000$ ), had a strong direct and meaningful association with tax compliance (Y). The P value shows that the connection between the two variables is strong. This implies that increase in print media tax education is significantly correlated with rise in tax compliance among SMEs.

#### 4.4.2 Multiple Regression Analysis Results

A multiple regression analysis was conducted to determine the effect of tax education on tax compliance. Tables 4.12, 4.13 and 4.14 show the outcomes.

**Table 4.12: Model Summary; Taxpayer’s Education and Tax compliance**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.827a	0.683	0.68	0.21962

a Predictors: (Constant), X3, X2, X1

**Source: Research Data (2021)**

Results in Table 4.12 show that 68 percent ( $R^2 = .683$ ) of the total differences in tax compliance between small and medium enterprises is jointly explained by all three predictor variables in this analysis. These findings confirm the correlation outcome in Table 4.11.

**Table 4.13: ANOVA; Taxpayer's Education and Tax compliance**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29.112	3	9.704	201.196	.000b
	Residual	13.505	280	0.048		
	Total	42.617	283			

a Dependent Variable: Y

b Predictors: (Constant), X3, X2, X1

**Source: Research Data (2021)**

In Table 4.13, the ANOVA regression model shows an F value of 201.196 and a P value of 0.000. The model is therefore significant in predicting the dependent variable given that the P value <0.05.

**Table 4.14: Coefficients; Taxpayer's Education and Tax compliance**

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.405	0.126		11.142	0.000
	X1	0.242	0.05	0.314	4.882	0.000
	X2	0.349	0.05	0.411	7.049	0.000
	X3	0.132	0.053	0.163	2.48	0.014

a Dependent Variable: Y

**Source: Research Data (2021)**

All the predictor factors of electronic taxpayer education (X1), taxpayer's sensitization programme (X2), and print media education (X3) have similar scales as well as a noteworthy constant, hence the use of unstandardized B-coefficients. The outcome in Table 4.14 indicate that electronic taxpayer education (X1), ( $\beta_1 = 0.242$ ,  $P = .000$ ); taxpayer's sensitization programme (X2), ( $\beta_2 = 0.349$ ,  $P = .000$ ); and print media education (X3), ( $\beta_3 = 0.132$ ,  $P = .014$ ) have a direct and meaningful effect on tax compliance among SMEs. The most significant predictor of tax compliance is taxpayer's sensitization programme ( $\beta_2 = 0.349$ ), followed by electronic taxpayer education ( $\beta_1 = 0.242$ ) and lastly print media education ( $\beta_3 = 0.132$ ).

Thus, the hypothesized model:  $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$ , now becomes:

$$Y = 1.405 + 0.242X_1 + 0.349X_2 + 0.132X_3$$

Where:

Y = tax compliance

X<sub>1</sub> = electronic taxpayer's education

X<sub>2</sub> = taxpayer's sensitization programme

X<sub>3</sub> = print media education

The findings imply that taxpayer's sensitization programme contributes significantly towards tax compliance. This finding was consistent with that of Gitaru (2017) who established that tax payer's influences tax compliance among SME's business owners.

The findings also imply that electronic taxpayer education contributes significantly towards tax compliance. This outcome was consistent with that of Lai Ming *et al.* (2010), who observed that the interpretation of ICT and electronic tax structures by students had a positive influence on tax compliance. According to the holistic perspective of taxpayers using electronic methods, compliance would be facilitated by the use of nuanced, systemic methods (Sas, 2007).

The findings further imply that print media education contributes significantly towards tax compliance. The findings supported Musharraf *et al.* (2016) assertion that print media improve individual perceptions towards tax compliance. Gitaru (2017) also observed that print media influences tax compliance among business owners.

#### **4.5 Discussion of the key Findings**

The reliability results indicated that the items measuring tax compliance, electronic taxpayer education, taxpayer's sensitization programme and print media education were

reliable. This was confirmed by Cronbach alpha coefficient greater than 0.7. From the descriptive analysis findings, majority of the respondents agreed with statements relating to the study variables. This was confirmed by aggregate mean scores: 3.4, 4.1, 4.1 and 4.2 for electronic taxpayer education, taxpayer's sensitization programme, print media education and tax compliance respectively.

The correlation analysis results indicated that all the independent variables (electronic taxpayer education, taxpayer's sensitization programme, print media education) had a strong direct and meaningful connection with tax compliance. This was confirmed by the following correlation coefficients: 0.767, 0.782, and 0.745 for electronic taxpayer education, stakeholder sensitization programme and print media education respectively. The P value of 0.000 further indicated that relationship between the independent and dependent variable is very strong.

The multiple regression findings indicated that all the predictor variables had a direct and meaningful effect on tax compliance. In particular, electronic taxpayer education (X1), ( $\beta_1 = 0.242$ ,  $P = .000$ ); taxpayer's sensitization programme (X2), ( $\beta_2 = 0.349$ ,  $P = .000$ ); and print media education (X3), ( $\beta_3 = 0.132$ ,  $P = .014$ ) had a direct and meaningful effect on tax compliance among SMEs.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter describes the summary of the study, conclusions and recommendations of the study. The main purpose of the study was to establish the effects of tax education on tax compliance among SMEs in Meru Town in Meru County. The study was informed by economic deterrence theory and diffusion theory. An explanatory research design was employed. The total target population was 2,100 licensed SMEs in Meru County Town according to the MSME basic report 2019 done by the Kenya bureau of statistics. The study used a sample size of 384 respondents as calculated using the fisher formula. Consequently, the sample size of 384 which included business owners was selected using simple random sampling procedures. Self-administered questionnaires were used to collect data from the respondents. Descriptive and inferential statistics were employed in the analysis of the research data and data was presented using tables and graphs.

#### **5.2 Summary of Findings**

The study was carried to evaluate the effects of taxpayer's education on tax compliance among SMEs in Meru Town. The study was also carried out to determine the influence of electronic taxpayer education, taxpayer's sensitization programme, and print media education on tax compliance among SMEs in Meru Town. The primary data of the study was collected by the use of questionnaires. The questionnaire was developed based on the objectives of the study. The questions were designed to cover general background information of the respondents relating to the effects of taxpayer's education on tax compliance among the SME's in Meru Town based on the conceptual framework.

##### **5.2.1 Electronic Taxpayer Education and Tax compliance**

The study's first objective was to determine the influence of electronic taxpayer education

on tax compliance among SMEs in Meru Town. Majority of the respondents noted that internet materials, itax system and tax advertisements were critical aspects that drive electronic taxpayer education. The findings of the correlation study revealed that the relationship between electronic taxpayer education and tax compliance among small and medium enterprises is substantially positive. In addition, multiple regression findings showed that electronic taxpayer education has a favorable and substantial impact on small and medium-sized enterprises' tax compliance. Therefore, electronic taxpayer education has a significant effect on tax compliance among the medium enterprises in Meru Town. The result was consistent with that of Lai Ming *et al.* (2010), who discovered that students' perception of ICT and electronic tax structures had a significant effect on tax enforcement. Similarly, (Sas, 2007) noted that by using electronic means, a systemic view of taxpayers would promote enforcement by using complex, systematic methods.

### **5.2.2 Taxpayer's Sensitization Programme and Tax compliance**

The second study objective was to assess the effects of the taxpayer's sensitization program on SME tax compliance in Meru Town. Majority of the respondents noted that seminars, workshops and road shows were key aspects of taxpayer's sensitization programme that enhanced their tax compliance.

The correlation findings indicated that there is a direct and meaningful association between taxpayer's sensitization programme and tax compliance among the SMEs. In addition, the regression outcome revealed that taxpayer's sensitization programme has a direct and substantial effect on tax compliance among SMEs. Therefore, taxpayer's sensitization programme has a significant effect on tax compliance among the SMEs in Meru Town. The results agreed with Gitaru (2017) who established that taxpayer's engagement influences tax compliance among business owners. Similarly, Karanja

(2014) established that sensitization was paramount in promoting tax compliance among taxpayers.

### **5.2.3 Print Media Education and Tax Compliance**

The third aim of the analysis was to assess the effects of print media education on tax compliance among SMEs in Meru Town. Majority of the respondents noted that print media education enhances public awareness, taxpaying culture, legal tax requirements and ethical attitudes of the taxpayers.

The results of the correlation analysis showed that the relationship between print media education and tax compliance among small and medium enterprises is significantly positive. In addition, multiple regression findings showed that print media education has a positive and important impact on small and medium-sized enterprises' tax compliance. Therefore, print media education has a significant effect on tax compliance among the medium enterprises in Meru Town in Meru County. The results were similar to those of Musharraf *et al.* (2016) who found that print media improve individual perceptions towards tax compliance. Gitaru (2017) also observed that print media influences tax compliance among business owners.

### **5.3 Conclusions**

Overall, the study concluded that when combined, electronic taxpayer education, taxpayer's sensitization programme and print media education positively and significantly affect tax compliance among the SMEs. In particular, taxpayer's sensitization programme was identified as the most significant predictor of tax compliance, followed by electronic taxpayer education and lastly prints media education. The findings supported the theoretical predictions of a connection between tax education and tax compliance. Both the economic deterrence and Vroom's Expectancy theory predicted a direct connection between the tax education and the compliance.

In conclusion taxpayer education is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government. In order to achieve this objective, the tax system should be effective and efficient to ensure that SMEs are not negatively affected.

### **5.3.1 Electronic Taxpayer Education and Tax compliance**

The study concluded that when combined with other predictors; electronic taxpayer education has a direct and meaningful effect on tax compliance among the SMEs. From the results, it is clear that electronic taxpayer education is a significant contributor of tax compliance. Some of the key aspects of electronic taxpayer education include use of internet, itax system and tax advertisement.

### **5.3.2 Taxpayer's Sensitization Programme and Tax compliance**

In line with the findings for objective two, the study concluded that when combined with other predictors; taxpayer's sensitization programme has a positive and significant effect on tax compliance among the SMEs. From the results, it is clear that taxpayer's sensitization programme is a significant contributor of tax compliance. Seminars, workshops and road shows were identified as key strategies that can enhance taxpayer's sensitization programme resulting to increase in tax compliance.

### **5.3.3 Print Media Education and Tax compliance**

From the findings for objective three, the study concluded that when combined with other predictors; print media education has a direct and meaningful effect on tax compliance the SMEs. From the results, it is clear that print media education is a significant contributor of tax compliance. In particular, print media education enhances public awareness, taxpaying culture, legal tax requirements and ethical attitudes of the taxpayers.

#### **5.4 Recommendations**

The study recommended the need for the KRA management to strengthen aspects relating to electronic taxpayer education. In particular, they should focus on the following aspects: having adequate tax materials in the internet, enhancing Itax system and use of tax advertisements. Improvement of the mentioned aspects is likely to enhance tax compliance among the SMEs.

The study also recommended the need for the KRA management to strengthen strategies relating to taxpayer's sensitization programme. In particular, they should focus on the following strategies: seminars, workshops and road shows. Improvement of the mentioned strategies is likely to enhance tax compliance among the SMEs.

The study further recommended need for the KRA management to strengthen aspects relating to print media education. In particular, they should focus on the following aspects: taxpaying culture, ethical attitudes and public awareness. Improvement of the mentioned aspects is likely to enhance tax compliance among the SMEs.

The study further recommended that the ministry of education has to introduce taxpayers' education and try to include the public finance and taxation course in the curriculum of all departments. This is because, tax is one of the major sources of revenue for a government which is used in general to finance public expenditures and if tax education influences tax compliance attitude of tax payers, the tax course (similar to civics and ethics) must be provided as a common course for all. Greater education potentially increases compliance; as educated taxpayers are more aware of their responsibility as well as the sanctions to be imposed if they were not compliant with tax laws. Education levels become more important in increasing tax compliance across countries. One of the measures to increase voluntary

compliance is by assuring that taxpayers have a certain level of qualifications, ability and confidence to exercise their tax responsibility.

### **5.5 Areas of Further Research**

The study explored the impact of tax education on tax compliance for SMEs in Meru Town in Meru County. The focus was on three components (electronic taxpayer education, taxpayer's sensitization programme and print media education), which accounted for 68% of variations in the dependent variable. Future studies could consider other aspects that can be attributed to the remaining 32%.

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## **APPENDICES**

### **APPENDIX I: INTRODUCTORY LETTER TO THE RESPONDENTS**

JKUAT/KESRA

P.O. BOX 48240-00100

Nairobi

**Dear Respondent,**

**RE: ACADEMIC RESEARCH QUESTIONNAIRE**

I am a student at the Jomo Kenyatta University of Technology/KESRA undertaking a post graduate diploma course in Tax administration. As part of the requirements, I am carrying out a research on **“effects of taxpayer’s education on tax compliance among SMEs in Meru Town”**.

This research is significant as it will highlight the key factors that influence the taxpayer’s education on tax compliance. The results of this study will provide KRA management, the government and other researchers with the critical information on the various stimulants that promote tax compliance.

This is an academic research and confidentiality will be strictly observed and your name will not appear anywhere in the report. Kindly spare some time to complete the questionnaire attached.

**Thank you in advance,**

Yours sincerely,

**Salim Juma Gitonga**

## Appendix II: Questionnaire

This questionnaire is designed to collect data on the effect of taxpayer education on small and medium enterprises on tax compliance in Meru Town. The data shall be used for academic purposes only and it will be treated with the confidentiality it deserves.

### Part I: Demographic Information

#### 1. Gender

Female [ ]

Male [ ]

#### 2. Level of education

Primary Level

[ ]

Secondary level

[ ]

Diploma Level

[ ]

Degree Level

[ ]

Masters

[ ]

#### 3. How long has your business been operating?

Less than 1 years [ ]

2 to 5 years [ ]

6 to 7 years [ ]

More than 7 years [ ]

**Part II: Electronic taxpayer education on tax compliance among small and medium enterprises**

This Section is concerned with assessing the effect of electronic taxpayer education on tax compliance among small and medium enterprises. Please tick in the box which best describes your agreement or disagreement on each of the following statements. Using a likert scale of 1-5 where Strongly Agree=1, Agree=2, Neutral=3, Disagree=4, and Strongly Disagree=5

Statements	1	2	3	4	5
There are enough tax payer education materials in the internet.					
Radio is more informative on tax matters.					
Television offer tax training programmes.					
I tax system has lessons on how to fill returns.					
Tax adverts are more informative about taxes matters.					

**Part III: Effect of taxpayer’s sensitization programmes on tax compliance among small and medium enterprises**

This Section is concerned with assessing the effect of taxpayer’s sensitization programmes on tax compliance among the small and medium enterprises. Please tick in the box which best describes your agreement or disagreement on each of the following statements. Using a likert scale of 1-5 where Strongly Agree=1, Agree=2, Neutral=3, Disagree=4, and Strongly Disagree=5

Statements	1	2	3	4	5
Seminars/workshops provides room for discussion over tax audits and prosecution					
Taxpayer sensitization has played a vital role in changing the attitudes of taxpayers.					
Road shows have Influenced decision to pay tax					
Seminars Provides discussions that helps to understand the tax laws					
Workshops and seminars are more detailed and provide ample time for the public to conceptualize idea					

**Part IV: Effect of print media tax payer education on compliance among small and medium enterprises.**

This Section is concerned with assessing the effect of print media tax payer education on tax compliance among the small and medium enterprises. Please tick in the box which best describes your agreement or disagreement on each of the following statements. Using a likert scale of 1-5 where Strongly Agree=1, Agree=2, Neutral=3, Disagree=4, and Strongly Disagree=5

Statements	1	2	3	4	5
Increases public awareness especially on matters concerning taxation laws, helps to Influence taxpaying culture.					
Creates tax payment reasons awareness					
Helps in easy understanding of legal tax requirements					
Increases the level of tax compliance.					
Influence of ethical attitudes on the tax compliance					

**Part V: Tax Compliance**

This Section is concerned with assessing the compliance among the small and medium enterprises. Please tick in the box which best describes your agreement or disagreement on each of the following statements Using a likert scale of 1-5 where Strongly Agree=1, Agree=2, Neutral=3, Disagree=4, and Strongly Disagree=5

Statements	1	2	3	4	5
Penalties and interests imposed are sufficient to deter people from regularly evading income tax.					
The tax return is easy and simple to complete.					
The tax systems are friendly and stable.					
I am fully satisfied with all requirements imposed by KRA					
Serious enforcement and penalty by the KRA may result if I do not comply					

**Thank you for your time and cooperation**