

**EFFECT OF TAXPAYER FACILITATION ON VALUE ADDED TAX
COMPLIANCE: A CASE OF SMALL AND MEDIUM SCALE TRADERS IN
NAIROBI'S CENTRAL BUSINESS DISTRICT**

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DECLARATION

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

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

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DR. BRUCE OGAGA

DEDICATION

I dedicate this work to my family, friends and colleagues for all their support during this study. I am sincerely grateful for your encouragement.

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I am very thankful to my supervisor Dr Bruce Ogaga whose dedicated supervision made it easier for me to complete this study on time. I am also appreciative to Jomo Kenyatta University of Agriculture and Technology for giving me the opportunity to pursue my studies. My appreciation also goes to my lecturers, work colleagues and everyone who played a role in making my research a success. Thank you all and God bless you.

ABSTRACT

As the main source of revenue for governments worldwide, the effectiveness and efficiency of tax collection cannot be gainsaid. However, studies indicate that tax non-compliance is a perennial problem in majority of the countries in the world. The private sector significantly contributes to the Kenyan economy by offering employment to very many people and through tax remittances to the government. Yet, the SMEs which dominate the private sector face numerous tax non-compliance issues. The main objective of this study was to examine effect of taxpayer facilitation on value added tax compliance by small and medium scale traders in Nairobi's Central Business District. The study was guided by Deterrence theory of taxation and the fiscal exchange theory. The study adopted a descriptive survey design. The sample size was 40 small medium scale traders in Nairobi central business district along Luthuli Avenue. The response rate was 78% .Both primary and secondary data was used where questionnaires were employed to collect primary data while secondary data was obtained from KRA website and other academic materials. Both descriptive statistics and inferential statistics were carried out with the help of the SPSS software. The study established that taxpayer facilitation was very instrumental in value added tax compliance by small and medium enterprises. Based on research finding it can be concluded that customer care, taxpayer education and online filing influences value added tax compliance. The study recommends that KRA should do more taxpayer sensitization to all the taxpayers to ensure that information reach the right people. The study therefore suggested that future studies focus on other large entrepreneur and government agencies for purposes of comparison.

TABLE OF CONTENTS

DECLARATION	ii
ACKNOWLEDGEMENT	iv
ABSTRACT	v
TABLE OF CONTENTS	vi
LIST OF TABLES	ix
LIST OF FIGURES	x
LIST OF ABBREVIATIONS AND ACRONYMS	xi
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the Study.....	1
1.2 Statement of the Problem	6
1.3 Objective of the Study	7
1.4 Research Questions	8
1.5 Significance of the Study.....	8
1.6 Scope of the Study	9
CHAPTER TWO	10
LITERATURE REVIEW	10
2.1 Introduction	10
2.2 Theoretical Review.....	10
2.2 Empirical Review	14
2.3 Conceptual Framework.....	21

2.4 Knowledge Gap	22
2.5 Critique of the study	22
CHAPTER THREE.....	25
RESEARCH METHODOLOGY	25
3.1 Introduction	25
3.2 Research Design	25
3.3 Target Population	25
3.4 Sampling Procedure and Sample Size	26
3.5 Data Collection Instruments	27
3.6 Data Collection Procedure	27
3.7 Pilot Testing.....	28
3.8 Data Analysis Methods	29
3.9 Ethical Considerations.....	30
CHAPTER FOUR.....	32
RESEARCH FINDINGS AND DISCUSSIONS	32
4.1 Introduction	32
4.2 Questionnaire Return Rate	32
4.3 Descriptive Statistics	39
4.4 Effect of Taxpayer Facilitation on Tax Compliance by SMEs	43
4.5 Inferential Analysis.....	44
4.6 Regression Analysis	45
4.7 Discussion of the Findings.....	50
CHAPTER FIVE.....	52

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	52
5.1 Introduction	52
5.2 Summary	52
5.2.1 Customer Care and Tax Compliance	52
5.2.2 Taxpayer education and PAYE tax performance	53
5.2.3 Electronic Taxpayer education and PAYE Tax performance	53
5.3 Conclusions	54
5.4 Recommendations	54
5.6 Suggestions for Further Studies.....	55
REFERENCES	56
APPENDICES	62
Appendix I: Introduction Letter	62
Appendix II: Questionnaire	63
Appendix III: List of Traders	68

LIST OF TABLES

Table 3.1 : Sample Size.....	27
Table 3.2: Reliability Test	29
Table 3.3: Operationalization of Study Variables	31
Table 4.1 : Response Rate	32
Table 4.1 : Respondents' Gender Distribution	34
Table 4.2: Respondents' Age Group	34
Table 4.3: Highest level of Education.....	35
Table 4.4 : Length of Existence of Business	35
Table 4.5: Annual Turnover in the Business	36
Table 4.6: Tests of Normality	37
Table 4.7: Multicollinearity Test	38
Table 4.8: Customer Care.....	40
Table 4.9: Taxpayer Education.....	41
Table 4.10: Electronic Filing System	42
Table 4.11: Taxpayer Facilitation and Tax Compliance.....	43
Table 4.12 : Summary of Correlations Statistics of Independent and Dependent Variables.....	44
Table 4.13 : Effect of Customer Care on Tax Compliance	45
Table 4.14 : Effect Of Taxpayer Education On Tax Compliance.....	46
Table 4.15 : Effect of Online Filing On Tax Compliance	47
Table 4.16: Overall effect of Taxpayer Facilitation on Tax Compliance	48

LIST OF FIGURES

Figure 2.1: Conceptual Model.....	22
Figure 4.1: Response Rate.....	33

LIST OF ABBREVIATIONS AND ACRONYMS

CBD	Central Business District
ETR	Electronic Tax Register
GDP	Gross Domestic Product
IEA	Institute of Economic Affairs
IRAS	Inland Revenue Authority of Singapore
IRS	Internal Revenue Service
KRA	Kenya Revenue Authority
KSHs	Kenya Shillings
MSEs	Micro and Small Enterprises
OECD	Organization for Economic Cooperation and Development
PAYE	Pay As You Earn
PIN	Personal Identification Number
SMEs	Small and Medium enterprises
SPSS	Statistical Package for Social Sciences
TIN	Taxpayer Identification Number
TOT	Turnover Tax
UK	United Kingdom
USA	United States of America
VAT	Value added Tax
VIF	Variance of Inflation Factor

OPERATIONAL DEFINITION OF TERMS

Facilitation	a set of measures undertaken by the tax authority that are designed to assist the taxpayers to be compliant, Richard (2004)
Tax	A compulsory levy on privately held assets, work, business transactions and other activities as may be sanctioned by the government, Kohonene and Alemayelu (2011)
Income Tax	a tax charged on income earned by either resident or non-resident as defined in the Act. Income Tax Act CAP470
Tax Audit	examination of an organization's or individual's tax return to verify that financial information is being reported correctly, Joel (2016)
Tax Avoidance	legal use of tax regime to one's own advantage, to avoid legal payment of tax, Sonja (2002)
Tax Compliance	taxpayers' willingness to fully abide by the law requiring them to pay taxes Franzoni (2000)
Registered person	any person registered under section 34, but does not include an export processing zone enterprise or a special economic zone, VAT ACT (2013)
Value Added Tax	is a consumption tax levied on designated local supply of goods and services and on imports, VAT ACT (2013)

CHAPTER ONE

INTRODUCTION

This chapter explains the background of the study, statement of the problem, objectives of the study, research questions, and justification for the study, scope and limitations of the study.

1.1 Background of the Study

Tax is the main source of revenue for governments worldwide. Effective and efficient tax collection system is therefore the hallmark of any working tax regime (Marti, 2010). However, tax evasion is a perennial problem in majority of the countries in the world; which needs to be tackled soonest possible (Tanzi, 2000). Tax evasion and avoidance have been associated to a number of factors, including corruption and generally weak tax administration mechanisms. This phenomenon is particularly thought to be rampant in developing countries where collected taxes often tend to disappear from the government treasuries. For example, Gupta (2013) holds that almost US\$285 billion is lost in developing countries every year due to tax evasion in the domestic informal economy. Owing to widespread tax evasion in developing economies worldwide, governments face difficulties to expand their tax base so that this can help them meet their obligation of public service delivery. This state of affairs often forces the governments to increase the same type of taxes every year so as to cope with their increasing budgetary demands for their people (Chipeta, 2012).

According to Kimingu and Kileva (2007), there are preconditions for flourishing tax systems, including taxpayer facilitation on tax compliance. High tax compliance generally means that there will be increased revenue collection hence enabling the government to offer public services effectively. Taxpayer facilitation has been viewed from different angles, including taxpayers being equipped with relevant education on tax processes. Tax compliance by an

individual can be defined as the ability to conform to all statutory obligations specified in the tax law. These include registration as taxpayer, maintaining required records, filing accurate returns on time, and paying correct amount of taxes.

Taxpayer education is seen as a means through which taxpayers understand tax laws and procedures hence helping them to be tax compliant at all times. Taxpayer education may include elaborate means of providing tax information, counseling and support to the taxpayers through different fora such as the newspapers, televisions, radio programs, and the internet among others (Kimingu and Kileva, 2007). Taxpayer education is also important in equipping individuals with taxation knowledge in terms of existing laws for regulation of the process. Well informed taxpayers are deemed to be fully aware of all the intricacies involving taxation such as the filing deadlines and penalties that non-compliance attracts (Richardson, 2008). Ample knowledge on the whole question of taxation enhances good attitude among the taxpayers hence making them more responsive when it comes to compliance. However, KRA still faces a lot of challenges in passing the right knowledge to the taxpayers. For instance, Mugisa (2010) states that although the KRA has been implementing a continuous tax education to Kenyans, knowledge about taxation and tax benefits still remain low among many taxpayers.

A government's successful tax collection basically depends on near total compliance by all the taxpayers (Duanjie et al, 2002). This includes conformity by small and medium scale traders, which according to the World Bank definition constitute enterprises that are formally registered (World Bank, 2007b). The Kenyan Sessional Paper No. 3 of 2004 defines small and medium enterprise (SME) as an enterprise with between 1 to 50 employees. Tax compliance by a business enterprise implies conformity with all legal tax provisions, including registration as taxpayer, maintaining required records, filing timely and accurate tax returns as well as strict remittances of taxes. Nevertheless, unsatisfactory taxpayer facilitation, including lack of

relevant tax information and knowledge tend to hamper tax compliance especially among SMEs (Marti, 2010).

Studies have shown that voluntary tax compliance by taxpayers easily helps the government meet its public service delivery obligations (World Bank 2007b). Yet, despite small and medium-sized businesses having emerged as the backbone for most developing economies such as Kenya, majority of them are hardly tax compliant (Cynthia et al, 2009). In spite of the significance and fame attached to SMEs in Kenyan economy and other world economies, this sector remains largely tax non-compliant hence unable to act as the government's stopgap measure for fiscal deficits (Loeprick & Engelschalk, 2011). For instance, Marti (2010) posits that the KRA has not been able to bring all SMEs on board when it comes to tax compliance. Most of them are ignorant about how to make tax remittances. High levels of illiteracy in the SME sector continue to bog down tax compliance. The situation becomes more complicated given the KRA's shift from manual tax returns filing system to online platform.

Computerization of tax filing systems demands that taxpayers need to be computer literate and access internet in order to file their returns online. Otherwise, seeking help from other parties who are more knowledgeable in computer applications and internet surfing would be the next option for those who are filing their returns. However, even this becomes more complicated as taxpayers are not readily willing to share their financial statuses with other people who may be available to help them with filing of returns. In any case, the help attracts extra costs as service charges to the taxpayers which they may not be willing to incur (Azmi and Bee, 2010). According to Auyat (2013), computer literacy and ease of access to internet use greatly influence online filing of tax returns.

Kenya has several SMEs, which ideally should be generating the country a lot of revenue through tax remittances. However, statistics shows that the government is not able to collect all taxes from the SMEs; mostly due to non-compliance as a result of lack of requisite

facilitation. According to (Christina, Deboral and Gray, 2003), SMEs' tax non-compliance is mostly unintentional where the taxpayers are not aware of their tax obligations or simply fail to fulfill their tax obligations. Ignorance of tax laws and procedures as well as the compliance attitudes are known to trigger this scenario. In this sense, taxpayer facilitation to the small and medium business owners becomes necessary so as to make tax compliance easy thereby improving revenue generation.

The main objective of a country's tax administrator such as the Kenya Revenue Authority (KRA) is to increase tax revenue collection for the government. However, KRA's inability to meet its yearly tax collection targets attest to the fact that a lot needs to be done in order to address tax compliance issues, especially in the SMEs sector which usually operates under several dynamics. Tax experts postulate that taxpayer facilitation would play a critical role in enhancing tax compliance by the small and medium entrepreneurs. Featuring SMEs in Nairobi, this study focuses on taxpayer facilitation on tax compliance. Taxpayer facilitation is consequently viewed as having a possible impact on tax compliance hence increase revenue collection for effective public service delivery. Situated in the Nairobi Central Business District, Luthuli Avenue has a number of SMEs which include numerous electronics shops. This will provide an opportunity to explore to what extent lack of clear competence on tax issues hinder tax compliance by small and medium business owners in this area.

1.1.1 Facilitation

In the context of tax compliance, facilitation can be defined as a set of measures undertaken by the tax authority that are designed to assist the taxpayers to be compliant. According to Richard (2004), facilitating compliance involves such elements as improving services to taxpayers by providing them with clear instructions, understandable forms, and assistance and information as necessary. Singapore is one of the countries that have led the world in its adoption of the new ways of facilitating compliance. In 1992, IRAS was created to improve

revenue collection in Singapore. IRAS introduced new services such as quality customer service, taxpayer education and online filing. These made it easier for taxpayers to have quick access to information on how and when to pay their taxes. In a recent survey 95 percent of individual taxpayers, 83 percent of corporate taxpayers, and 93 percent of goods and services taxpayers said they were satisfied with IRAS services, which they found to be convenient as well as competently and courteously provided (Bird and Oldman, 2000). According to (Sarker, 2003) public relations, tax education, tax consultancy and guidance are known as four pillars of tax compliance in Japan. Over the years, KRA has taken initiatives to foster compliance such as Electronic filing: iTax platform, Staff trainings, Taxpayer education, Customer care centers through setting up call centers, Huduma centers and iTax support centers.

1.1.2 Value Added Tax Compliance

Tax compliance is imperative for any tax administrator in its tax collection efforts. According to Franzoni (2000), there are four basic rules a taxpayer should follow in order to be fully compliant with the tax law. These includes the taxpayer being able to report the real tax base to the tax authorities; computing correctly the tax liability; filing the tax return on time; and paying the amounts due on time. If one of the rules is broken, the taxpayer becomes non-compliant. A compliant taxpayer in Kenya therefore is one who has been registered as a taxpayer under iTax; duly declares the correct amount of his or her taxable income; knows his or her tax obligations; files the various/required tax return as per his or her tax obligation; pays the correct amount of taxes within the required period; and is aware of any existing penalties and is willing to pay whenever the situation demands so.

Value Added Tax is a tax on the value added to the supply by the last seller, (Radhakrishanan, 2008).It is an indirect tax on consumption of taxable goods and services. VAT was introduced in Kenya in 1990 to replace sales tax. VAT paid on inputs in turn is claimed as credit when registered taxpayers declare output VAT on their sales (VAT Act 2013 Sec 17) .Therefore

VAT registered taxpayers act as agents in collecting and remitting collected VAT to Kenya. Therefore taxpayers registered for value added tax have to keep detailed records of all input tax and output tax by providing information on purchases and sales to facilitate the completion of VAT returns, this may sometimes make it difficult to comply if they do not have proper knowledge on how to go about the process. Kenya Revenue Authority (KRA) has since embarked on sensitization of Kenyans on tax compliance, organized awards for distinguished taxpayers and provision of tax amnesties for defaulters (KRA, 2004). VAT compliance measures are vital to ensure that compliance has been achieved in the informal sector.

1.1.3 Nairobi Central Business District (CBD)

Nairobi Central Business District (CBD) is an economic hub not only within the Nairobi County but in Kenya generally.

Common within the CBD are small and medium scale businesses. The businesses run across many sectors including service, trade, and manufacturing among others. There are many streets known for particular types of businesses. For example, Luthuli Avenue is lined up with a number of electronic shops as well as hotels; this buttressed by the huge traffic flow in this area as a result of many termini here. Despite a large concentration of businesses within the CBD, there are many challenges when it comes to collection of taxes by the KRA on the informal sectors.

1.2 Statement of the Problem

Economists have paid a close attention on the rising number of tax collection deficits worldwide. According to Dickson and Presley (2013), over 70 per cent of sub-Saharan African Countries are presently experiencing huge deficits in the management of their budgets. This can be attributed to their inability to collect enough revenue required to finance the budget. Raising enough revenue is the basic standard that any tax system ought to achieve and

therefore the existing budget deficits suggest that the tax systems are not meeting the set targets. For instance in 2018 the Federal Inland Revenue Service (FIRS) of Nigeria only recorded a total tax collection of 5.32trillion Naira against the set target of 6.72trillion Naira. The South Africa Revenue Service (SARS) also missed to achieve its revenue target of 1.3trillion Rand last year.

KRA hardly meets its tax revenue collection targets every year despite having taken initiatives to enhance compliance. According to KRA – 7th Corporate Plan (2018) on performance review of the sixth corporate plan, KRA set a target of Sh4,185.6 billion but it was only able to collect Sh4,000.8 billion implying a shortfall of Sh184.8 billion. Statistics from the Quarterly Economic and Budgetary Review Report (2019) for the Third Quarter, Financial Year 2018/2019 Period ending 31st March, 2019, shows that KRA collected only Sh300, 146million against the set target of Sh315, 874million of VAT, missing the target set by Sh15725million. Small and medium enterprises play a very critical role in Kenyan economy hence ideally a great source of government revenue in terms of taxes. Yet, there is a strong indication that a big percentage of SMEs do not comply in their tax remittances thus denying the government revenues and derailing service delivery to the public. Non-compliance by a big percentage of the SMEs players poses a great challenge to KRA as a statutory body mandated with streamlining taxation processes. This study therefore sought to understand how taxpayer facilitation affects value added tax compliance by SMES in Nairobi CBD, with Luthuli Avenue as a reference point.

1.3 Objective of the Study

The main objective of this study was to establish the effect of taxpayer facilitation on tax compliance by small and medium scale traders in Nairobi.

1.3.1 Specific Objectives of the Study

The specific objectives of the study were to:

- (i) Determine the effect of customer care services on value added tax compliance by small and medium scale traders in Nairobi.
- (ii) Establish the effect of taxpayer education on value added tax compliance by small and medium scale traders in Nairobi.
- (iii) Examine the effect of online filing system on value added tax compliance by small and medium scale traders in Nairobi.

1.4 Research Questions

The research questions of this study were:

- (i) What is the effect of customer care services on value added tax compliance by small and medium scale traders in Nairobi?
- (ii) What is the effect of taxpayer education affect value added tax compliance by small and medium scale traders in Nairobi?
- (iii) What is the effect of online filing system affect value added tax compliance by small and medium scale traders in Nairobi?

1.5 Significance of the Study

This research will be a contribution in theory building by serving as a reference point for future studies on taxation and tax management not just in Kenya but also in other economies.

The study will also provide policy makers with information for initiating credible tax reforms and to seal loopholes leading to tax evasion. The findings of this study will also be used for managerial practice to help in formulating efficient and effective tax collection and compliance policies and improve service delivery to the public. Findings of this study will also

be instrumental in raising awareness among taxpayers running SMEs hence increase the taxes collected by the government.

1.6 Scope of the Study

This study focused on tax compliance by small and medium enterprises in Nairobi, with specific attention on SMEs operating in Luthuli Avenue within the Nairobi Central Business District in the financial year 2018-2019. Inclusion criteria were based on the fact that the business entity should have been in existence for at least six months before the date of the interview.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter examines relevant literature related to taxpayer facilitation and tax compliance by SMEs. Starting with theoretical appraisal, literature review mainly focuses on the effect of customer care services on tax compliance, the effect of taxpayer education on tax compliance, the effect of electronic/iTax filing system on tax compliance, and the effect of staff training on tax compliance by SMEs. For the purposes of review, sub-headings are made based on emerging themes in the study. The chapter further highlights conceptual framework which concretizes the relationship between variables.

2.2 Theoretical Review

This study was guided by two theories. The first theory is the Deterrent theory of taxation by Becker (1968). The second theory is the Fiscal exchange theory of taxation by Schmolders (1959).

2.1.1 Deterrence Theory of Taxation

According to Deterrence theory of taxation, an individual taxpayer is viewed as a rational economic agent. According to Walsh (2016), in this sense the taxpayer is in a position to weigh the costs of evading taxes against the benefits of his/her action and makes a choice to pay or not to pay. The individual chooses not to pay if the benefit of non-compliance overshadows the costs. The overriding assumption is that taxpayer behaviour is influenced by tax rate, which determines the benefit of tax evasion and penalties for fraud and probability of

detection, which determine costs and also emphasizes on the use of threat, coercion and intrinsic material incentives.

Considered as one of the theoretical cornerstones on tax compliance, the theory prescribes punishment to tax evaders (Franzoni, 2014). The effect of this presupposition is that in the absence of audits and penalties, there is a higher probability for tax evasion. On the contrary, if there are higher chances of tax evasion detection and penalties are harsh; few people will dodge taxes (Fjeldstad, Schulz-Herzenberg and Sjursen, 2012). Deterrence theory also makes the assumption that taxpayers are motivated by profits and their actions are driven by the calculation of costs and the opportunities that come with their action. The taxpayer is compelled to pay taxes for fear of being reprimanded if caught on the wrong side of the government. Furthermore, deterrence theory presupposes that the taxpayer applies economic rationale that he/she will evade tax as long as the associated costs of tax evasion are greater in comparison with the expected costs of being caught.

There is a theoretical positive relationship between tax penalty and tax compliance, whereby an increase in the tax penalty can lead to increase in tax compliance. Deterrence measures such as probability of being subjected to an audit by tax authorities are found to reduce noncompliance among taxpayers. For example in Malaysia there is a penalty imposed after an audit report discloses an underreporting or misstatement by the taxpayers. Thereby encouraging taxpayers to voluntarily make a disclosure of such underreporting before the audit. In Nigeria there is a penalty for contravening the provisions of the Nigeria Value Added Income Tax Act. In Kenya tax offences can attract punitive penalties and interests such as an additional 20% of tax involved is charged for failing to pay tax on due date and an additional tax equal to 5% of the normal tax or Kshs 10,000 for failure to file returns.

Deterrence theory still enjoys as much prominence as criticism in most studies on tax compliance. According to Slemrod (2017), one of the outstanding criticisms of the theory is based on its vagueness. It is thought of not being pragmatic in explaining taxpayer compliance since it predicts a broad considerable noncompliance beyond what is obtainable in reality. Furthermore, Rethi (2012) observed that despite the existence and use of audits and penalties which are the key components of the deterrence model, tax evasion has remained, and continuously poses momentous threats to countries' economies through loss of revenue. In any case, according to Sour (2014), it has also been observed that there are people who never evade taxes, even when the probability of detection is zero. The theory has also been criticized for failing to consider behavioral factors such as attitudes, perceptions and moral judgments. It has also been faulted for ignoring the presence of codes of conducts, such as moral and ethical constraints that have potential to prevent people from cheating in their taxes (Sour, 2014). Rethi (2013) also argues that the theory ignores the relevance that tax compliance takes place in a social context. A combination of censure of this theory has thus led to the incorporation of diverse outlooks especially behavioral ones into the study of tax compliance behavior, and subsequently, development of broad-based factors that affect taxpayers' non-compliance behavior.

2.1.2 Fiscal Exchange Theory

Fiscal exchange theory holds that the presence of government expenditures may serve as a motivating factor for taxpayer compliance, especially when the taxpayers value the goods and services they perceive to be receiving from the government (Fjeldstad et al, 2012). In this sense, the taxpayer may be seen as exchanging their purchasing power in the market in return for government services. The exchange is viewed as largely conditional and varying as the government varies in its performance. According to McKerchar and Evans (2011), the fiscal

exchange theory is seen to have evolved from the economic deterrence and the social psychology models.

Furthermore, Fjeldstad et al (2012) are of the view that this theory is premised upon the existence of a social, relational or psychological contract between the government and the taxpayers. Thus, the taxpayers will be more willing to comply when they are satisfied with the provision of services from the government, even in the absence of detection and punishment (Torgler, 2013). On the contrary, they are also likely to adjust their terms of trade by reducing compliance when they are discontented with services provision from the government or when they dislike the way their taxes are spent (Palil, 2010). KRA's motto "Kulipa ushuru ni kujitegemea" is meant to motivate Kenyans to pay their taxes to enable us to be self-reliant as a country. Taxes are government's main source of revenue and its responsibility to fund public services lies at the heart of taxation. Kenyans would be more willing to comply if they are satisfied with essential services such as free education, roads, health and social security.

One more suggestion of the fiscal exchange theory is that of tax bargaining between taxpayers and the government, which is considered as fundamental to building relations of accountability, mutual rights and obligations between state and society (Fjeldstad, *et al.*, 2012). Alm (2009), citing several works, also noted that evidences exists from empirical, experimental, and simulation researches, that points to the fact that compliance is affected by collective decision process. This happens in democratic countries, where the taxpayers are presumed to be in a position to renegotiate their tax contract with the government, since they can monitor and control politicians and contribute as rule setters through referenda and initiatives respectively (Torgler, 2013).

2.2 Empirical Review

Every government depends on taxes to run its affairs. Taxes are therefore the central source of revenues for all governments that enable them to discharge their mandate of providing essential services to the public. All taxpayers have the obligation to pay their taxes so as to enable the government meet its commitments to the public. However, it is not unusual to find some taxpayers, whether individuals or organizations, that tend to be non-compliant when it comes to remitting their taxes to the government (Lymer, 2016).

Empirical studies show that, worldwide, the trust in tax authorities is positively related to tax compliance. This is because tax administrators influence tax compliance through rules and regulations it sets (Akintoye, 2013). In fact, trust has been viewed as actually nurturing compliance because this is what determines acceptance and compliance with an organization's rules and regulations. Perception that a regulatory agency is unreliable has also been shown to be a function of whether regulators distrust those from whom they are demanding cooperation and compliance. People are influenced by judgments of the neutrality of decision making procedures. Neutrality includes assessments of honesty, impartiality, and the use of fact, not personal opinions, in decision-making (Nyamwanza et al, 2014).

2.2.1 Taxation and Tax Compliance in Kenya

Kohonene and Alemayelu (2011) define tax as a compulsory levy on privately held assets, work, business transactions and other activities as may be sanctioned by the government. According to Ogundele (2017), taxation is a process by which individuals or organizations are made to contribute in some agreed quantum and process for the sole purpose of a country's development. Kasipillai, Aripin, and Amran (2010) argue that through taxpayers' tax compliance, the government is able to meet its obligations to the public. In the Kenya, the

Kenya Revenue Authority (KRA) is the authorized body to deal with tax administration. Key on the KRA's main agenda is minimizing the tax non-compliance gap and increasing voluntary tax compliance. KRA has the responsibility of initiating realistic policies and practice. Richardson (2016) argues that instituting a professional tax system which among other features has simplified mode of filing tax returns, would potentially help taxpayers to be more tax compliant. Accurate filing of tax returns implies increased compliance as taxpayers are encouraged to complete returns on their own hence evading any extra cost that would have been incurred.

Despite the importance of tax in a county's socio-economic progress, there are still some taxpayers who for one reason or the other fail to comply with remittances of their taxes on time (Kohonene and Alemayelu, 2011). While the KRA is ideally performing its functions as mandated by law, there are still loopholes as evidenced through its inability to always meet its yearly set targets as set by the Treasury. The Authority's challenge in terms of tax collection also extends to the private business sector where small and medium traders in particular often tend to be tax non-compliant.

2.2.2 Customer care services and tax compliance

Taxation is the only known main and practical means through which governments finance public expenditure and provide services to the people (McCluskey, 2015). It is inevitable therefore for the government – through a legislative authority - to impose tax upon individuals or property owners to support the government. Hence, tax is not a voluntary payment or donation but an enforced contribution through legal means (Cobham, 2017). Despite its centrality in operation of the state, it is common to find that for one reason or the other taxpayers fail to stick to tax compliance, an example is not getting proper assistance when one needs to file returns. Customer care service has always been related to most private sectors but

it has now been embraced by public service providers .Just like any organization, the quality of service offered by tax administration is very critical and its main goal should be to offer better services to taxpayers. Services provided by tax offices were defined by OECD (2007) as information given to taxpayers, interaction with taxpayers and transaction as the main service. A study done by Torgler (2007) revealed that taxpayers would be more willing to cooperate with the tax authority if provides quality services and treats taxpayers as partners. Feld and Frey (2006) also agreed with Torgler when they said that the compliance behavior is greatly affected by how the taxpayers are treated while receiving services from tax authority.

With the evolving New Public Management concept, tax offices are increasingly becoming aware of the necessity to accord the taxpayers the status of customers as many tax authorities such as those of Australia, France, Sweden, the UK and the US have reconstructed their approaches toward taxpayers by giving more consideration to their tax service needs and treating them as client (Kirchler, 2007).Taxpayers need assistance and information in order to fulfill their tax obligation. Saker (2003) says that in order to enhance tax compliance, the Japanese tax administration provides its taxpayers with various services such as guidance, education and consultations. Public relation activities are carried out using the media and tax education is provided to schoolchildren. Taxpayers in Japan are also able to obtain consultation services via the telephone, facsimile and other media.

2.2.3 Tax Compliance from Small and Medium Enterprises (SMEs) in Kenya

It is common practice for tax administrators to concentrate more on large taxpayers such as corporations. Yet, small and medium traders dominate most economies especially in developing countries such as Kenya. Tax compliance among small and medium enterprises is a big challenge in many economies, including Kenya (Akintoye, 2013). Governments therefore needed to create favorable environment for these businesses, by for instance raising

awareness and willingness of taxpayers toward voluntary tax compliance (Nyamwanza et al, 2014).

Nada and William (2009) point out that reaching as many SMEs as possible through better tax education and support services are one of the best strategies to enhance tax compliance. To enforce this approach, use of presumptive tax systems effectively come into play. One of the critical factors sometimes considered in presumptive tax is the indicator based tax. This may include floor space of business premises, number of employees, value of inventory, capacity of machinery, and the length of operation of the business so as to estimate the actual income. Besides, useful indicators for which data can be obtained from third parties, such as electricity and water consumption, can be incorporated in the tax calculation. Commonly used in countries such as Poland and Spain where tax is collected from unincorporated businesses based on common indicators, indicator-based tax is generally difficult to misreport than turnover or income (OECD, 2012). This approach gives an opportunity to realize significant savings in tax compliance and tax administration costs.

Mwangi (2014) carried out a study on factors influencing tax compliance among small and medium enterprises in Industrial area Nairobi and the findings of the study revealed that with lack of readily available information relating to tax matters accounted to a great percent as a reason for non-compliance. He further said that lack of information contributed to the inability of the taxpayers to correctly calculate the taxes payable. Another variable that was considered in this study was compliance costs such as keeping records and employing professionals for bookkeeping affected compliance of small and medium enterprises.

2.2.4 Taxpayer Education and Tax Compliance by SMEs

According to O'Brian (2015), tax compliance has often directly been linked to taxpayer education. Well informed taxpayers are viewed as being abreast with non-compliance challenges and opportunities hence try their best to pay their taxes as demanded of them by laid down laws and regulations. A study on taxation among SMEs in the informal sector in Ghana found that in spite of about 65% of SMEs surveyed being aware that they were required to pay taxes, more than half of the respondents were not well informed why they paid taxes (Carroll, 2011). Similarly, more than 50% of the respondents said they did not enjoy the benefits of paying tax. The implication therefore is that tax education alone may not guarantee continued tax compliance. In another study on the effect of taxpayer education on voluntary tax compliance among SMEs in Mwanza in Tanzania, the findings showed that while 83% of the respondents agreed that taxpayer education helped them in understanding clearly the procedure of paying taxes, 17% said that taxpayer education did not help them clearly know procedures of paying taxes (Machogu and Amayi, 2013). Khalfan (2010) therefore recommended that the government should increase the number of seminars and workshops on tax issues and issue guidebooks written in Kiswahili in order to enhance transparency on tax assessment. This meant to enable SMEs be well acquainted on tax policies and procedures hence enhancing tax compliance.

According to KRA (2016), less educated taxpayers were less exposed to information about tax compliance and the relevant tax regulations. The perceived complexity of the tax system encouraged many small entrepreneurs to operate in obscurity for fear of reprimand from the tax authorities. According to Mugisa (2010), although the Kenya Revenue Authority (KRA) has been implementing a continuous tax education to Kenyans, knowledge about taxation and tax benefits still remain low among taxpayers. A good percentage of small and medium

entrepreneurs view tax as a punishment rather than an obligation hence increasing non-compliance. According to Palil (2010), limited tax knowledge was an impediment to tax compliance not only in Kenya in many world economies. Wrong attitude by the public about taxation makes it even harder for a good number of traders to comply since they tend to view paying taxes as a punitive undertaking rather than as an obligation every citizen should fulfill. No doubt it is against this backdrop that the KRA launched a culture change program to inculcate in its entire staff the philosophy of patriotism to the country hence passing the same message to the taxpayers. Notwithstanding these efforts, there are still many cases of tax non-compliance by the SMEs (Loeprick & Engelschalk, 2011)

In Kenya, according to empirical evidence, tax education is usually done through such forums as interactive websites, leaflets, open call centers, adverts through televisions, radios and other media channels among other means (Carroll, 2011). Yet, researchers argue that educating the public about the need to pay taxes must go beyond informing them to pay taxes, and include telling them why exactly that tax is important. Tax experts have argued that in order to capture the attention of small traders on the need to pay taxes, tax authorities should be able to demonstrate that the tax collected is spent prudently for the general good of the public (Machogu and Amayi, 2013). According to Mustafa and Asri (2007), besides tax education, knowledge about tax laws also plays a significant role in determining taxpayer's tax compliant behaviour. Indeed, some researchers have postulated that tax compliance could be influenced by educating taxpayers of their social responsibilities to pay tax. In this sense, knowledge about tax law is assumed to be important in influencing attitude towards taxation. Furthermore, tax knowledge to as many taxpayers as possible was the surest way of improving their tax ethics and perceptions of fairness and equity hence increase tax compliance (Eriksen and Fallan, 1996). Another study done by Gitaru (2017) on the effect of taxpayer education on

tax compliance in Kenya revealed that taxpayer education is necessary to increase public awareness especially in areas concerning taxation laws hence enhancing compliance.

2.2.5 Online Filing System and Tax Compliance by SMEs

Taxation in the informal sector poses huge challenges for the KRA. This is even made more difficult due to the big number of illiterate and semi-illiterate business operators in SMEs. Such state of affairs tends to hamper the efforts by KRA of computerizing their tax filing systems. Owing to the complexity some people associate with internet-based platforms, it implies that for KRA to realize its objectives of electronic tax filing processes, taxpayers must be computer literate. What is not clear however is the extent to which computer illiteracy among small and medium entrepreneurs affect their tax compliance. Imperative to note is the fact that as a largely internet dependent platform, online tax services requires basic internet usage knowledge (Azmi and Bee, 2010). Indeed, studies show that computer literacy and ease of access to internet use bears a direct impact on the online tax returns (Auyat, 2013). According to Hussein et al (2010), in order to successfully file tax returns online, the user must be able to self-navigate on the web-based platform with minimal difficulties. Otherwise the alternative would be to rely on an agent, which may be more costly. Relying on other people for tax returns discourage some individuals who may not be willing to disclose their financial status and business transactions to people they don't trust. Ultimately, on the face of difficulty in filing tax returns online, taxpayers choose to abscond hence leading to non-compliance (Auyat, 2013).

A study by Mandola (2013) on the adoption of ITMS system noted that for any government e-service to be useful, it must be easy to apply by all interested users, including those with minimal internet knowledge and experience. Therefore it emerged that there was a direct relationship between the ease to tax compliance and an individual's internet experience,

availability and access to internet infrastructure (Muhangi, 2012). Easy access to internet for online filing of tax returns makes it possible for taxpayers to readily meet their tax obligations. Conversely, according to Osebe (2013), lack of appropriate computer literacy levels makes online tax filing untenable. Besides, engaging of third parties makes the process expensive hence discouraging compliance (Mandola, 2013). Ondara et al (2016) conducted a study on influence of online filing among small and medium enterprises in Nakuru and established that online filing is convenient way of filing returns; however computer literacy levels have significant influence on tax compliance levels amongst the SMEs within Nakuru. The study recommended that computer literacy levels should be emphasized by KRA in order to improve on tax compliance levels. Navigating the online tax system amidst internet or computer difficulties by a taxpayer means that the exercise will be more time consuming hence expensive (Muhangi, 2012). Such challenges on the part of the taxpayer are likely to influence tax compliance since adoption of the online tax system, which is presumably cheap, would be shunned (Lukwata, 2011). Another study done by Wasao (2014) effect of electronic filing on tax compliance among small taxpayers in East of Nairobi tax district established that online system enhances compliance as far as filing of tax returns is concerned. There was a positive correlation between online system and tax compliance among taxpayers under study. Wasao (2014) also said that while a number of taxpayers agreed that with online system payments are more accurate and their tax ledgers get updated in real time, majority however, had reservation with accessibility especially on due dates.

2.3 Conceptual Framework

Conceptual framework gives a depiction of how the independent and dependent variables are interrelated. According to Mugenda (2014), independent variable affects and determines the effect of another variable. Dependent variable is therefore a factor which is observed and

measured to determine the effect of the independent variable. As illustrated in Fig. 2.1, the independent variables in this study are customer care, tax education, on-line filing, and staff training. Customer care can be seen from the context of good customer relations and increased public services to the public. Tax education can be viewed on the basis of taxpayer tax knowledge and computer literacy. In regard to online filing, it is important to consider access to internet and user satisfaction among taxpayers. Staff training can be considered in the context of simplicity of use of tax filing system among other aspects. In one way or the other, these independent variables influence the dependent variable, which is the compliance by SMEs operators.

Independent variables

Dependent variable

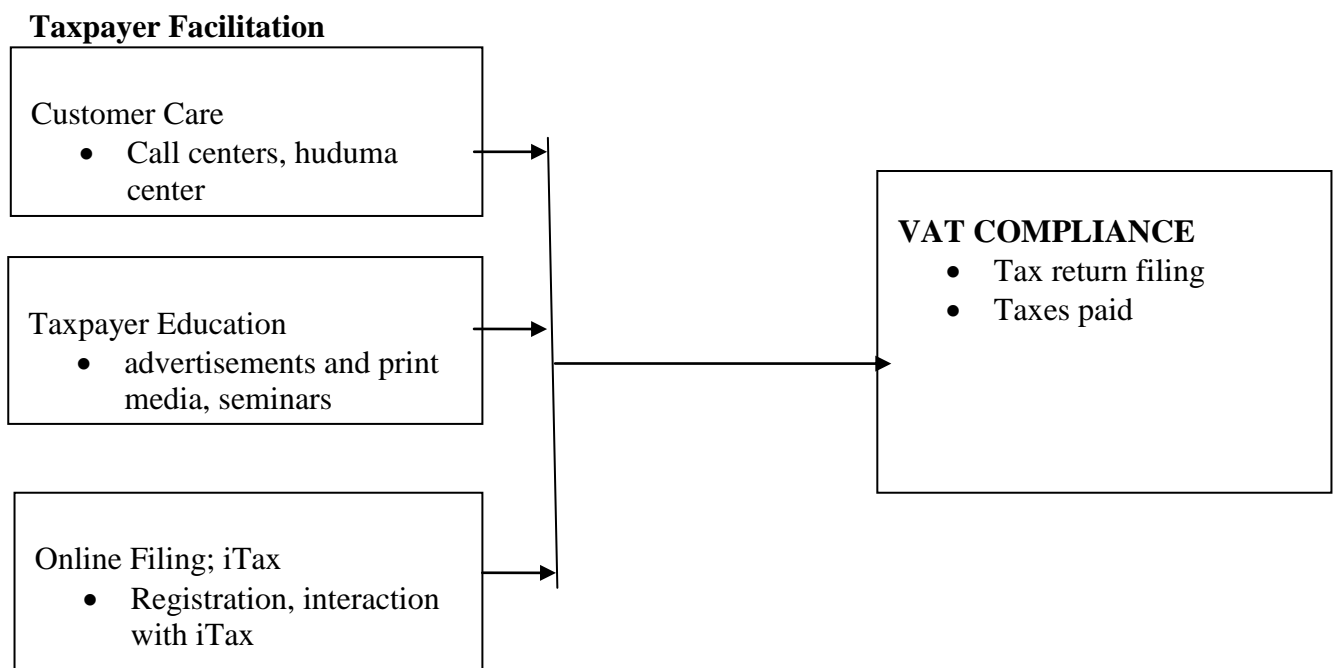


Figure 2.1 Conceptual Framework

Source Researcher 2019

2.4 Knowledge Gap

Most scholars have concentrated on how to change the behavior of the taxpayer using deterrent measures such as audit and penalties. Only a few studies have focused on how compliance can be enhanced through helping the taxpayer to comply voluntarily. There is a contextual gap in a study done by Bird and Oldman (2000) on improving taxpayer service and facilitating compliance in Singapore showed that good customer care, computerized approach to tax and taxpayer education had impressive results, it had improved compliance and revenue collection in Singapore. A similar study has not been done in Kenya yet. Another study by Aruwa (2008) on the relevance and the problems of Value Added Tax (VAT) in Nigeria revealed taxpayers have inadequate knowledge of the VAT mechanism due to the low VAT education, therefore treating VAT as a cost to their businesses.

Studies done in Kenya have not clearly brought out how taxpayer facilitation affect value added tax compliance. There are several conceptual gaps, for example a study done by King'iona (2016) on factors affecting value added tax compliance among the construction firms in Kisumu established that tax knowledge and understanding had a significant effect on VAT compliance, how it did not look into other variables in this study. Another study done by Gitaru (2017) on effect of taxpayer education on tax compliance on SMEs in Nairobi CBD only focused on one element of taxpayer facilitation, he found out that tax compliance could be influenced by educating taxpayers and therefore recommended that the government should invest more in educating taxpayers to enhance voluntary compliance. Cheruiyot (2015) carried out a study on iTax and service delivery by KRA found that iTax system affect service delivery on a high extent, however it was focused on how KRA can use iTax to improve services whereas there is need to know how both iTax and service delivery affect tax compliance. Mwangi (2014) on factors influencing tax compliance among small and medium

enterprises in Industrial area Nairobi, found out that information relating to tax matters is not readily available to taxpayers therefore contributing to low tax compliance.

2.5 Critique of the Study

This study was guided by fiscal exchange theory which holds that the presence of government expenditures may serve as a motivating factor for taxpayer compliance, however data was not collected to determine respondents' awareness of government's expenditure and the level of satisfaction with government services and motivation for value added tax compliance. The study also covered a small section of Nairobi with a focus point on Luthuli Avenue, therefore it may be difficult to implement policies countrywide based on such a small study area.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter focuses on how the study was conducted and the justification for the methodology used in the research. It contains research design, target population, sampling and sample size. In addition, the chapter focuses on data collection instruments, data collection procedures, pilot testing, and data analysis techniques, as well as research ethical considerations.

3.2 Research Design

The study adopted a cross-sectional research design to address the research objectives. This type of research design allows a detailed comparative description and analysis of the variables involved in the study. Saunders et al (2009) holds that cross-sectional research design is a blueprint that makes it possible for a researcher to give comparative accurate description and presentation of the relationship between variables while providing an opportunity for deeper insights into the study variables. This design applies deductive reasoning, allowing generalization of the study findings to other areas beyond the confines of study.

3.3 Target Population

Population is the total group of well-defined elements from which researchers can pick their samples to help them make certain deductions or inferences (Saunders et al, 2013). This could be a unique set of elements with some common observable characteristics of a particular distinct nature. According to KRA (2017), there are 1499 small and medium enterprises (SMEs) with VAT obligation in Nairobi City Center along Luthuli Avenue. The target

population for this study was 1499 .Specific focus was on businesses operating along Luthuli Avenue, which served as a sampling frame for the study and also as the unit of analysis

3.4 Sampling Procedure and Sample Size

Kothari (2004) argues that a sampling frame is the source from which a sample is to be drawn. The sample size for the study is defined by the Cochran equation as shown below (Cochran, 1977).

$$n=N*X/(X+N-1)$$

Where

$$X=Z^2*p*(1-p)/MOE^2$$

n= the desired sample size

N=population size

Z=standard normal deviate at the confidence level of 95%, which is 1.96

p= the proportion in the target population estimated to have the characteristics being measured, in this case p=0.95

MOE= margin of error, which is 0.05

Substituting for the values:

$$n=1499*72.9904/(72.9904+1499-1)=39.961$$

The total sample size calculated from the total population will therefore be 40 small and medium enterprises (SMEs) in Nairobi City County to participate in the study were selected using stratified random sampling, whereby the target population is divided into groups and random samples are selected from each group of the small scale businesses

Table 3.1: Sample Size

Sectors of Participants	Frequency (n)	Percentage (%)
Total	40	100

3.5 Data Collection Instruments

The study used a structured questionnaire as the main research instrument. A questionnaire has the ability to gather large sample sized data hence saving time. Besides, a questionnaire provides an opportunity for upholding confidentiality of the respondents, especially when it is self-administered. The questionnaire was mainly closed-ended; with a few open-ended questions to capture additional information or provide an opportunity for clarifications. Studies indicate that a combination of both closed-ended and open-ended questionnaires guarantee more rich data hence appropriate for generalization of the findings (Orodho (2005). The questionnaire contained sections A to E. Section A contained demographic information of the respondents while section B to E each featured the four specific research objectives. Section B consisted of Yes/No options and items applying the Likert Scale, with the responses ranging from 1-5 on the rating scale.

3.6 Data Collection Procedure

The study used cross-sectional data obtained from varied business players in the SMEs sector. Upon securing approval from the Kenya School of Revenue Administration, fieldwork commenced in the following order: the questionnaire was pilot-tested and revised where possible. Thereafter, enough copies of the questionnaire were made before actual data collection, which involved either face-to-face interviews or self-administered questionnaires. An assessment of the fielded questionnaires was then done through serialization and coding in preparation for data entry. Data analysis, presentation, and discussion then ensued and a report

was written. During the entire fieldwork process, high level confidentiality was observed as a way of protecting the respondents' privacy.

3.7 Pilot Testing

A pilot study was conducted to four randomly selected respondents. These respondents did not participate in the actual study. Pilot testing was important to help develop a more effective research instrument for collection of the right data. Moreover, the pilot study was to ensure that the questionnaires were clearly phrased so as to be well understood by all the respondents.

3.7.1 Reliability of Research Instruments

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. It contributes to standardization of research instruments which in turn enables the results of a study to be generalizable to the larger population.

The reliability analysis was done using Cronbach's Alpha which is usually interpreted as the mean of all possible split-half coefficients. Customer care had an alpha of 0.802, taxpayer education had an alpha of 0.729, online filing had and an alpha of 0.746 and lastly Tax Compliance had an alpha of 0.793. The benchmark value of 0.7 is commonly used for the reliability whereby alpha values above 0.7 are considered acceptable and satisfactory, above 0.8 are considered good and above 0.9 are considered to reflect exceptional internal consistency (Mohajan, 2017). The Cronbach's alpha coefficient of 0.7 was used as the benchmark for this study, and all variables had met the threshold.

Table 3.2: Reliability Test

Variable	N	Cronbach Alpha
Customer care	5	0.802
Taxpayer education	5	0.729
Online filing	5	0.746
Tax Compliance	5	0.793

3.7.2 Validity of Research Instruments

Validity is the degree to which a research instrument measures what it intends to measure and performs as it is designed to perform (Cherry, 2015; Saunders et al, 2013). It is a measure of relevance and correctness. Validity is an indication of how sound the research is.

To enhance the validity of the instrument, pretesting was done to determine whether the questions were acceptable, answerable and well understood. Pilot testing of research instruments was important because it helped reveal vague questions, unclear instructions and enabled the researcher to improve the efficiency of the instruments.

3.8 Data Analysis Methods

After data entry, quantitative data was analyzed using descriptive techniques. These included Statistical Package for Social Sciences (SPSS) IBM Version 21 software program and Excel worksheets. Summary of the results was presented using frequency distribution and percentages. Tables and charts were used to present the statistics. Qualitative data was

analyzed using the coding, pattern and content analysis technique. Content analysis technique was used in making inferences by objectively and systematically identifying specified characteristics of information collected from the field. An analytical model-regression analysis was done to establish the relationship amongst variables. Regression analysis was used to understand which among the independent variables were related to the dependent variable, and to explore the forms of these relationships.

$$Y = \beta_0 X_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where Y = Compliance

$\beta_0 X_0$ = Beta Coefficient

X_1 = Customer care

X_2 = Taxpayer Education

X_3 = Online Filing

ϵ = Error term

3.9 Ethical Considerations

Ethical considerations entail informed consent, confidentiality and anonymity during the research process. During fieldwork, an introduction letter was attached to every questionnaire, spelling out clearly the purpose of the study and the kind of information required from the respondents. The research participants were informed that their involvement was voluntary and were assured of confidentiality of the information they shared. Safe for their designation, they were not required to give their actual names. They were not coerced in any way to give out information they were not comfortable revealing. They also had the freedom to stop the interview midway as they may have deemed fit.

3.9.1 Operationalization of Variables

The dependent variable of the study is tax compliance in Nairobi central district. Customer care, taxpayer education and online filing system are the independent variables for the study. This section provides details of how each of the study variables will be measured and operationalized.

Table 3.3: Operationalization of Study Variables

Variables	Source/Authors	Data collection	Measurement scale	Types of Analysis
instrument				
Independent variable				
Customer care	Cobham (2007)	Questionnaire	5 point likert scale	Quantitative
Taxpayer education	OBrian (2000)	Questionnaire	5 point likert scale	Quantitative
Online filing	Azmi & Bee (2010)	Questionnaire	5 point likert scale	Quantitative
Dependent Variable				
VAT compliance	Loeprick & Engelschalk (2011)	Questionnaire	5 point likert scale	Quantitative

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the findings of the study and a discussion of these findings. The presentation has been done based on the specific objectives of the study where data is summarized using tables, graphs and charts as well as narratives. The study sought to examine the effect of taxpayer facilitation on value added tax compliance by small and medium scale traders in Nairobi. Specific objectives of the study included: to determine the effect of customer care services on value added tax compliance by small and medium scale traders; to establish the effect of taxpayer education on value added tax compliance by small and medium scale traders; and to examine the effect of online filing system on value added tax compliance by small and medium scale traders.

4.2 Questionnaire Return Rate

Based on the sample of 40 respondents 31 of them managed to complete the interviews. As summarized in table 4.1, this made a response rate of 78%. This was an impressive outcome, sufficient for analysis.

Table 4.1: Response Rate

Respondents	Sample Size		Response Rate	
	Frequency	Percentage	Frequency	Percentage
	(n)	(%)	(n)	(%)
Total	40	100	31	78

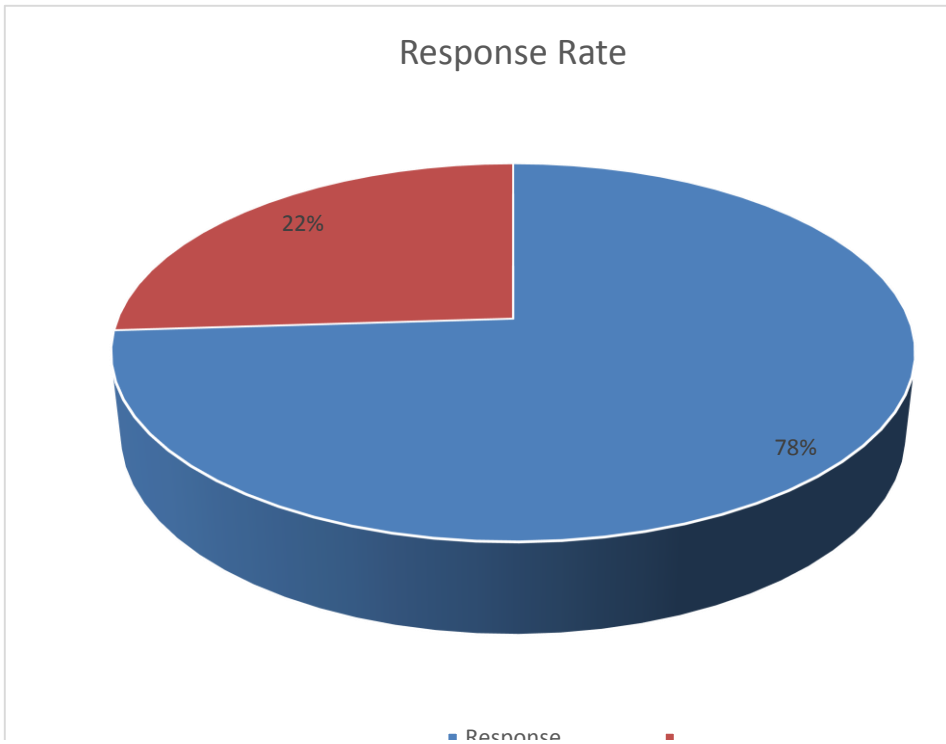


Figure 4.1: Response Rate

Survey Data (2019)

Respondents' Social and Demographic Information

The respondents' social and demographic information included their gender, age, highest level of education, and length of service in their respective businesses as well as the annual turnover of their companies. These are further discussed in the subsequent subsections.

4.1.1 Gender Distribution of the Respondents

As summarized in table below 61% of the 31 interviewed respondents were males while 39% were females. This may imply that the ratio of men to women involved in small scale trade in Nairobi is skewed, favoring the men.

Table 4.1: Respondents' Gender Distribution

Professional qualification	Frequency	Percentage
Male	19	61
Female	12	39
Total	31	100

4.1.2 Age Distribution of the Respondents

The respondents' age was disaggregated base on uniform intervals where 18 years (legally mature age) was taken as the minimum and 56 & above as the maximum. As illustrated in table below, majority of the respondents were aged 26-35, closely followed by those aged 18-25, 36-45, and 46-55 years. This accounted for 12 (39%), 9 (29%), 7 (23%), and 3 (10%) respectively. There were no respondents who were aged 56 and above years. Cumulatively, a greater majority of the respondents were aged between 18 and 45 years. From these statistics it can be deduced that majority of the people involved in small and medium enterprises were relatively young. Table below gives a summary of these findings.

Table 4.2: Respondents' Age Group

Age Group	Frequency	Percentage
18 -25 years	9	29
26 – 35 years	12	39
36 – 45 years	7	23
46 - 55 years	3	10
Above 56	0	0
Total	31	100

4.1.3 Highest Education Level of the Respondents

The respondents were also asked about their highest level of education as a critical indicator of their understanding of the need to pay tax. The findings indicated that majority of them were form four leavers 14 (45%), followed by those who had tertiary education 9 (29%), primary qualifications stood at 5 (16%), university education 2 (6%), and other (no formal education) at 1 (3%) respectively. These findings are summarized in table below

Table 4.3: Highest level of Education

Professional	Frequency	Percentage
Primary	5	16
High school	14	45
Tertiary	9	29
University	2	6
Any other	1	3
Total	31	100

4.1.4 Length of Business of the Respondents

Asked about the period their businesses had existed, majority of the respondents indicated that they had been in their respective trades for 1-3 years. These were followed by those who said that they had traded for 4-6 years, while the minority said that they had been small and medium business traders for 7-9 years. None of them said that their businesses had existed for more than 10 years. A summary of these findings is given in table below

Table 4.4: Length of Existence of Business

Years	Frequency	Percentage
1 - 3	20	64.5
4 -6	10	32.2
7 – 9	1	3.2
Above 10	0	0
Total	31	100

4.1.5 Company's Annual Turnover

The respondents were also asked about their companies' annual turnover. This was to gauge how much they were making in terms of profit, and if this in any way affected their filing of tax returns. Majority of those interviewed said that their annual turnover was 0-5 million Kenya shillings at (64.5%), followed by 6-10M at (20%), 11-15 million at (9.7%) and with the minority saying that their annual turnover was above 10 million at (6.4%). These responses are illustrated in table below

Table 4.5: Annual Turnover in the Business

Employee	Frequency	Percentage
0- 5M	20	64.5
6 -10 M	6	20
11 – 15 M	3	9.7
Above 16 M	2	6.4
Total	31	100

4.2 Assumptions of Regression

Prior to performing the inferential analyses, statistical assumptions were tested to establish if the data met the normality, linearity, homogeneity of variance and collinearity assumptions, and it was on the basis of these results, that tests of associations and prediction were performed.

4.2.1 Test of Normality

The Shapiro-Wilk test was employed to test for normality. This test establishes the extent of normality of the data by detecting existence of skewness or kurtosis or both. Shapiro-Wilk statistic ranges from zero to one with figures higher than 0.05 indicating that the data is normal (De Vos, Strydom, Fouche & Delport, 2011).

Normality was tested using the Shapiro-Wilk test and the results showed that all the variables were above 0.05 ($p > 0.05$) hence confirming data normality. Normality assumes that the sampling distribution of the mean is normal. P-values for the Shapiro-Wilk tests were 0.17 for customer care service, 0.29 for taxpayer education, 0.19 for online filing system, and 0.48 for tax compliance. Since all the p-values were greater than the cutoff point of 0.05 at 95% confidence level, this confirms the hypothesis that data was collected from a population which is normally distributed.

Table 4.6: Tests of Normality

	Shapiro-Wilk	
	Statistic	Sig
Customer care	0.834	0.17
Taxpayer education	0.996	0.29
Online filing system	0.872	0.19
Tax compliance	1.064	0.48

a. Lilliefors Significance Correction

4.2.2 Multicollinearity Test

Multicollinearity is a phenomenon whereby high correlation exists between the independent variables. It occurs in a multiple regression model when high correlation exists between these predictor variables leading to unreliable estimates of regression coefficients. This leads to strange results when attempts are made to determine the extent to which individual independent variables contribute to the understanding of dependent variable (Creswell, 2014).

The consequences of Multicollinearity are increased standard error of estimates of the Betas, meaning decreased reliability and often confusing and misleading results. Multicollinearity test was conducted to assess whether high correlation existed between one or more variables in the study with one or more of the other independent variables. Variable Inflation Factor (VIF) measured correlation level between the predictor variables and estimated the inflated variances due to linear dependence with other explanatory variables. It was tested by computing the Variance Inflation Factors (VIF) and its reciprocal, the tolerance.

In the current study tolerance ranged from 0.127 to 0.399 and therefore its reciprocal, the VIF was between one and two, which is below the maximum threshold value. A common rule of thumb is that VIFs of 10 or higher (conservatively over 5) points to severe multi-collinearity that affects the study. A tolerance threshold value of below 0.2 indicates that collinearity is present (Ary, Jacobs & Sorensen, 2015). The results revealed no problem with multicollinearity. The variables of the study indicated VIF values of between 7.171 and 7.899 which is less than 10. This indicated that the data set displayed no multicollinearity.

Table 4.7: Multicollinearity Test

(Constant)	Collinearity Statistics	
	Tolerance	VIF
Customer care services	0.142	7.381
Taxpayer education	0.127	7.899
Online filing system	0.399	7.171

Dependent Variable: Valued Tax Compliance

4.3 Descriptive Statistics

4.3.1 Customer Care Services and SMEs VAT Compliance

One of the objectives of the study was to determine the effect of customer care services on value added tax compliance by small and medium scale traders in Nairobi. Based on various propositions touching on this variable, it generally emerged that a significant majority of the respondents had the views that customer care services had influence on tax compliance by SMEs in Nairobi. For instance, as illustrated in table below, the respondents unanimously agreed with the suggestion that they have ever received assistance by KRA staff on filing my tax returns with a mean score of 3.68. Similar sentiments were echoed when the respondents were asked if they knew a friend who has ever been given assistance by KRA staff on filing my tax returns with a mean score of 4.07 regarding whether they draw a lot of satisfaction from KRA's customer services the respondents almost disagreed with this suggestion with mean score of 2.98. Similarly, many traders in the SMEs sector did not draw a lot of satisfaction from KRA's customer services with a mean score of 3.53. Lastly on statement KRA needs to improve on its customer care services had a mean score of 3.45

Based on this distribution, it is evident that customer care services significantly influenced value added tax compliance by SMEs in Nairobi. In this sense, the respondents had a feeling that KRA needed to do more in order to sensitize all small and medium traders on the need to file returns and assist them if need be. Creating a good forum by the KRA to engage small and medium traders would empower them so that they can not only know how to file the returns on their own but also always remember to do this on time. Furthermore, the respondents felt that the current online filing system should be simplified so that majority of the taxpayers can file their returns without any hurdles.

Table 4.8: Customer Care

	Mean	SD
I have ever been given assistance by KRA staff on filing my tax returns	3.68	0.416
I know a friend who has ever been given assistance by KRA staff on filing my tax returns	4.07	0.438
I draw a lot of satisfaction from KRA's customer services	2.98	0.087
Many traders in the SMEs sector draw a lot of satisfaction from KRA's customer services	3.53	0.254
KRA needs to improve on its customer care services	3.45	0.309
Mean	3.54	

4.3.2 Taxpayer Education and SMEs' VAT Compliance

The second objectives of the study, was to determine the effect of taxpayer education on value added tax compliance by small and medium scale traders in Nairobi. Based on various propositions touching on this variable, it generally emerged that a significant majority of the respondents had the views that customer care services had influence on tax compliance by SMEs in Nairobi. For instance, as illustrated in table below, the respondents unanimously agreed with the suggestion that the system is too complicated for me to promptly pay my tax with a mean score of 4.60. Similar sentiments were echoed when the respondents were the system is too complicated for me to promptly file tax returns with a mean score of 3.51. Regarding whether they have been adequately been trained on the importance of filing tax returns with mean score of 3.64. Similarly, I often learn through brochures, booklets, or seminars on tax compliance had a mean score of 3.03.

Lastly on statement KRA has played a significant role in enlightening SMEs on tax compliance had mean score of 4.87, based on this distribution; it is evident taxpayer education significantly influenced VAT compliance by SMEs in Nairobi. Table 4.4 captures a summary of these responses.

Table 4.9: Taxpayer Education

	Mean	SD
The system is too complicated for me to promptly pay my tax	4.87	0.645
The system is too complicated for me to promptly file tax returns	3.51	0.263
I have been adequately trained on the importance of filing tax returns	3.64	0.272
I often learn through brochures, booklets, or seminars on tax compliance	3.03	0.275
KRA has played a significant role in enlightening SMEs on tax compliance	4.60	0.821
Mean	3.93	

4.3.3 Online Filing System and SMEs VAT Compliance

The third objective of the study was to examine the effect of iTax filing system on value added tax compliance by small and medium scale traders in Nairobi. The statistics on table below indicates that respondents disagreed that they have ever used e-filing to file my tax returns with a mean score of 2.86 while respondent agreed to have ever used the system with a mean score of 3.65. Similarly, a significant majority agreed that they were knowledgeable about tax registration on iTax system with a mean score of 4.28. Furthermore, agreement that they were find online platform to be convenient with a mean score of 4.87. Lastly, respondent said they were unsure if they knew how to file the returns on their own because they always seek assistance from someone else with a mean score of 4.99. Based on this distribution, it can be deduced that electronic system significantly influenced VAT compliance by SMEs in Nairobi. Table below captures a summary of these responses.

Table 4.10: Online Filing System

	Mean	SD
I have ever used e-filing to file my tax returns	2.86	0.174
I am knowledgeable about tax registration on iTax system	3.65	0.201
I am knowledgeable about tax returns filing on iTax system	4.28	0.658
Online filing platform is a more convenient way for filing my taxes	4.87	0.662
I always seek assistance from friends, relatives, or cyber café operator	4.99	0.867
Mean	4.13	

4.4 Effect of Taxpayer Facilitation on Value Added Tax Compliance by SMEs

This study aimed to examining the effect of taxpayer facilitation on value added tax compliance by small and medium scale traders in Nairobi. Based on the analysis on table below where various propositions were fielded to the respondents regarding the effect of taxpayer facilitation and tax compliance by SMEs in Nairobi, generally there was a significant influence. For instance respondents agreed with the suggestion that many SMEs are enabled to file their returns as required by the law with a mean score of 4.05. Respondent almost disagreed with the statement that many SMEs are enabled to pay their taxes promptly, with a mean score of 2.76 Similarly, respondents agreed with the view that all relevant mechanisms are in place to ensure tax compliance by SMEs with a mean score of 3.65. Furthermore, respondents disagreed that KRA is regularly in touch with SMEs to facilitate tax compliance with a mean score of 2.39. To sum it up all respondents had the view that a lot needs to be done in order to improve taxpayer facilitation for SMEs with a mean score of 4.14 and hence improve tax compliance by this section of the businesses in Nairobi and in Kenya in general. Based on this distribution, it is evident that taxpayer facilitation significantly influenced tax compliance by SMEs in Nairobi. A summary of these responses is illustrated in table below

Table 4.11: Taxpayer Facilitation and Value Added Tax Compliance

	Mean	SD
Many SMEs are enabled to file their returns as required by the law	4.05	0.657
Many SMES are enabled to pay their taxes promptly	2.76	0.356
All relevant mechanisms are in place to ensure tax compliance by SMEs	3.65	0.597
KRA is regularly in touch with SMEs to facilitate tax compliance	2.39	0.418
A lot needs to be done to improve taxpayer facilitation for SMEs	4.14	0.467
Mean	3.39	

4.5 Inferential Analysis

The study performed Pearson correlation analyses to assess both the respective strengths and direction of relationships among the independent variables and between the independent variables and dependent variables. The variables were computed with the aid of the Statistical Package for Social Sciences. Multiple regression analysis was also conducted to determine the effect of the various independent variables on the dependent variable and therefore test the hypotheses of the study.

4.5.1 Correlation Analysis for Composite Variables

Table below presents the Pearson correlations for the relationships between the independent variables including customer care, taxpayer education, and online filing and tax compliance of small and medium scale traders in Nairobi central business district which formed the dependent variable. From the findings, a positive and statistically significant correlation is observed between each pair of the independent variables and between the independent and the dependent variables. . A correlation coefficient value (r) in the range of 0.1 to 0.29 is considered weak, 0.3 to 0.49 is considered moderate while 0.5 to 1.0 is considered strong extracts from O'Brien, 2007. Table below indicate that customer care is positively correlated with compliance (r= 0.467), taxpayer education is positively correlated with compliance (r= 0.634), online filing had the highest correlation with compliance (r= 0.745)

Table 4.12 : Summary of Correlations Statistics of Independent and Dependent Variables

	VAT compliance	Customer care	Taxpayer education	Online filing
Compliance	1			
Customer care	0.467*	1		
Taxpayer education	0.634	0.425	1	
Online filing	0.745*	0.359*	0.538*	1

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

Survey Data (2019)

4.6 Regression Analysis

The broad objective of the study was to investigate the effect of Taxpayer facilitation on compliance from selected Small and Medium Enterprises in Nairobi central business district. To achieve this objective, three specific objectives and three corresponding questions were set and formulated respectively. Subsequently, to achieve the set objectives and questions answered.

Model Summary

The results in Table below indicated that customer care had a positive correlation with value added tax compliance up to 64.2% or ($R = 0.642$). The results reveals that customer care caused a variation of 41.2% or ($R^2 = 0.412$ and adjusted $R^2 = 0.407$) on tax compliance. This implies that the remaining 58.8 % of the change was caused by other factors not included in the model. (F value = 20.165, $P = 0.008 < 0.05$).

Table 4.13 : Effect of Customer Care on Tax Compliance

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.642 ^a	.412	.407	.42731		
a. Predictors: (Constant), Customer care						
ANOVA ^a						
Model	Sum of Squares	Mean Square	F	Sig.		
Regression	11.187	1.187	20.165	0.000		
Residual	8.947	0.183				
Total	20.134					
a. Dependent Variable: Compliance						
b. Predictors: (Constant), Customer care						
Coefficients ^a						
Model	Unstandardized Coefficients		Standardized Coefficients		T	Sig.
	B	Std. Error	Beta			
1	(Constant)	8.081	.618		2.667	.000
	Customer care	0.245	.196	.642	8.550	.008

a. Dependent Variable: Compliance

The results in Table below indicated that taxpayer education had a positive correlation with tax compliance up to 48.3% or ($R = 0.483$). The results reveals that taxpayer education caused a variation of 23.3% or ($R^2 = 0.233$ and adjusted $R^2 = 0.229$) on tax compliance. This implies that the remaining 76.7 % of the change was caused by other factors not included in the model. (F value = 29.6705, $P = 0.000 < 0.05$).

Table 4.14 : Effect Of Taxpayer Education On Valued ATax Compliance

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.483 ^a	.233	.229	.47275	

ANOVA ^a					
Model		Sum of Squares	Mean Square	F	Sig.
	Regression	18.145	0.270	29.6705	.000 ^b
1	Residual	7.708	0.361		
	Total	25.853			

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Constant)	2.486	1.376		1.254	.000
1	Taxpayer education	0.376	0.651	0.483	3.786	.000

a. Dependent Variable: VAT compliance

b. Predictors: (Constant), taxpayer education

The results in Table below indicated that online filing had a positive correlation with tax compliance up to 72.6% or ($R= 0.726$). The results reveals that online filing caused a variation of 52.7% or ($R^2=0.527$ and adjusted $R^2 =0.532$) on tax compliance. This implies that the remaining 47.3 % of the change was caused by other factors not included in the model. (F value = 11.288, $P=0.000 < 0.05$).

Table 4.15: Effect of Online Filing On Valued Added Tax Compliance

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.726	.527	.523	.14540	

ANOVA^a					
Model	Sum of Squares		Mean Square	F	Sig.
1	Regression	14.854	2.342	11.288	.000 ^b
	Residual	6.891	.410		
	Total	21.745			

Coefficients^a						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.292	.749		1.034	.000
	Online filing	.396	.284	.726	0.450	.000

a. Dependent Variable: VAT Compliance

b. Predictors: (Constant), Online Filing

4.6.1 Model Summary

A regression analysis was performed to determine the effect of taxpayer facilitation on tax compliance by small and medium scale traders in Nairobi Central Business District. Coefficient of determination R^2 , was used as a statistical measure to predict how well the data fit the model and also the degree to which the dependent variable change while adjusted R^2

was used to measure unbiased estimate of the population. The findings of both coefficient of correlation R and coefficient of determination R^2 are presented in table below

Based on the findings in the table above, the coefficient of correlation R is 0.929. This means that taxpayer facilitation has a strong relationship with tax compliance by small and medium scale traders in Nairobi. The coefficient of determination R square (R^2) is 0.859; an indication that 85.9% change in tax compliance of small and medium traders in Nairobi is explained by taxpayer facilitation. Hence, apart from taxpayer facilitation, there are other factors that influence tax compliance in Nairobi by 14.1%. There should therefore be conducted future studies to focus on these other factors.

From the above, the value of F calculated is 128.482. The value of F critical (at df 5, 25) is 2.306. Given that the value of F calculated is greater than F critical, it can be deduced that the overall regression model used in the study was significant in predicting how taxpayer facilitation influenced tax compliance of small and medium traders.

Coefficients with P values of individual variables of the research are presented in table below

Table 4.16: Overall effect of Taxpayer Facilitation on Value Added Tax Compliance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	4.103	1.191		3.423	0.002
Customer care services	0.249	0.073	0.079	3.801	0.021
Taxpayer education	0.112	0.029	0.023	2.242	0.014
Electronic system	1.169	0.241	0.479	4.998	0.029
R	0.929				
R Square	0.859				
Adjusted R Square	0.863				
F	128.482				
Sig	0.000				

Dependent Variable: Value Added Tax Compliance by Small and Medium Traders

Regression Equation

From the statistics in the table above, the following model was established

$$Y=4.103+0.249X_1+0.112X_2+1.169X_3+e$$

Where Y = VAT Compliance

β_0X_0 =Beta Coefficient

X_1 = Customer care

X_2 = Taxpayer Education

X_3 = Online Filing

ϵ = Error term

A unit change in customer care causes an increase of 0.249 on VAT compliance, unit change in taxpayer education causes an increase of 0.112 on VAT compliance and a unit change in online filing causes an increase of 1.169 on VAT compliance

4.6.2 Analysis of Variance

The findings from Table above shows an F statistics value of 128.482 with a significance level of 0.000 which was less than the conventional probability of 0.05 significance level. Hence establishing the model is statistically significant. The implication is that each independent variable (customer care, taxpayer education and online filing) contributes significantly to changes in the dependent variable (Tax compliance).

4.6.4 Test of Research Questions

The first question was what is the effect of customer care on compliance from small and medium enterprises in Nairobi central business district? Customer care has a positive relationship effect on the compliance of small and medium enterprises in Nairobi central

business district. The results on Table above revealed that p value was less than 0.05, $\rho=0.021$ which implies that relationship was statistically significant

The second question was what extent does taxpayer education affects tax compliance by small and medium scale traders in Nairobi? Taxpayer education has a positive relationship effect on the compliance of small and medium enterprises in Nairobi central business district. The results on Table above revealed that p value was less than 0.05, $\rho=0.014$ which implies that relationship was statistically significant

The third question was what extent does online filing affects tax compliance by small and medium scale traders in Nairobi? Online filing has a positive relationship effect on the compliance of small and medium enterprises in Nairobi central business district. The results on Table above revealed that p value was less than 0.05, $\rho=0.014$ which implies that relationship was statistically significant

4.7 Discussion of the Findings

This section presents discussion of the results of various tests carried out on the study. The findings of this study revealed that a lot of taxpayers need assistance from KRA while filing returns therefore showing that customer care services affect value added tax compliance. It agrees with the study done by Torgler (2007) which said that taxpayers can willingly cooperative with the authorities if the authority treats them as partners and offers quality services to them. It also agrees with the study done by Feld and Frey (2006) which said that compliance behavior is greatly affected by how the taxpayers are treated while receiving services from tax authority. Therefore if a taxpayer can get the assistance needed from the authority, either through emails or phone calls whenever they have queries about filing and paying taxes they are more likely to be compliant.

The study sought to find the effect of taxpayer education on value added tax compliance, the findings revealed that although KRA has played a significant role in enlightening the taxpayer, majority of the respondents have a challenge in accessing information about taxes through print media and seminars. As discussed earlier in this study, less education on tax means the taxpayers are less exposed to tax information and are less informed about tax compliance. A significant number of taxpayers find the tax information more difficult to understand than others. This complexity may lead to unintentional noncompliance. This study is in agreement with Gitaru (2017) on the effect of taxpayer education on tax compliance in Kenya that taxpayer education plays a positive role in enhancing tax compliance.

This study also revealed that most taxpayers are knowledgeable about tax registration on iTax. It also showed that the taxpayers are aware of return filing on iTax filing; however most of them always seek assistance from other people while navigating on the portal. This may indicate that most taxpayers are aware of what they are supposed to but they may not know how to go about it. This study agrees with Ondaro et al (2013) who said that computer literacy affects the use of online platform. Most taxpayers also agreed that online filing system is convenient and has made their work easier. This also agrees with Wasao (2014) on effect of electronic filing on tax compliance among small taxpayers in East of Nairobi when he said that was a positive correlation between online system and tax compliance.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the findings of the study, conclusions and recommendations. The chapter also highlights suggestions for possible future studies on related subjects to this research topic.

5.2 Summary

The study sought to examine the effect of taxpayer facilitation on tax compliance by small and medium scale traders in Nairobi. The study was guided by three specific objectives that included: to determine the effect of customer care services on tax compliance by small and medium scale traders; to establish the effect of taxpayer education on tax compliance by small and medium scale traders; and to examine the effect of online filing system on tax compliance by small and medium scale traders in Nairobi.

5.2.1 Customer Care and Tax Compliance

The study found out that customer care enhanced compliance. Most respondents have been given assistance by KRA staff on filing my tax returns and taxpayer draw a lot of satisfaction from KRA's customer services with many traders in the SMEs sector drawing alot of satisfaction from KRA's customer services. According to respondent they know a friend who has ever been given assistance by KRA staff on filing my tax returns. The study showed a significant relationship between customer care and compliance .The study findings affirmed that KRA needs to improve on its customer care services to enhance taxpayers' ability to understand and to increase their confidence in fulfilling their responsibilities as taxpayers.

5.2.2 Taxpayer education and tax compliance

The study found out that taxpayer education enhanced compliance. Most respondents were aware the system is too complicated for them to promptly pay tax. Taxpayer have been adequately been trained on the importance of filing tax returns there were also confirmation that taxpayer often learn through brochures, booklets, or seminars on tax compliance. According to respondent KRA has played a significant role in enlightening SMEs on tax compliance. The study showed a significant relationship between taxpayer education and tax compliance. The study findings affirmed that taxpayers will readily accept any tax information introduced, if they have education on tax to. Thus, education programs organized by the tax authority or other public education institutions are needed to enhance taxpayers' ability to understand and to increase their confidence in fulfilling their responsibilities as taxpayers.

5.2.3 Online Filing and Tax compliance

The study aimed to examine the effect of online filing on compliance among small and medium enterprises in Nairobi central business district. The study revealed that use of online compliance did foster compliance in Nairobi central business district. Online filing shows a positive correlation with tax compliance. The respondent's agreed that they are knowledgeable about tax registration on iTax system and knowledgeable about tax returns filing on iTax system. The findings shows that taxpayer find the online platform very convenient, taxpayer also seek assistance from friends, relatives, or cyber café operator implying that SME In Nairobi central business district performed well regarding iTax platform being convenient and easy to understand on tax compliance. Respondents tend to almost disagree that they have ever used e-filing to file my tax returns

5.3 Conclusions

Based on the study findings, a conclusion can be drawn that taxpayer facilitation was indispensable in value added tax compliance of small and medium enterprises. This means that there was need for the KRA to closely induct small and medium traders on the need to file tax returns. This cadre of taxpayers also needs to be trained well on how to file their returns. In addition, KRA staff should be closely in touch with taxpayers in the informal business industry so as to enlighten them on the general question of filing tax returns.

5.4 Recommendations

Based on the outcomes of the study, the government should aggressively reach out to small and medium traders to minimize tax evasion and forestall any future non-compliance. The study recommends the following

5.4.1 Customer Care

Kenya Revenue Authority should strive to give taxpayers high quality services as stipulated in the corporate plan. Officials should aim to adhere to the taxpayers' charter of service provision to taxpayers and provide necessary HELP as stipulated in KRA's corporate values. This will improve communication between the taxpayers and the authority. Customer care lessons should also be introduced in staff trainings to guide officers on how to handle different types of clients and queries in a satisfactory manner. A twenty four hour call center should be established to help taxpayers who want to get information at their own convenience.

5.4.2 Taxpayer Education

Tax is one of the major sources of revenue for a government which is used to finance public expenditures, yet very few taxpayers have knowledge on tax matters .Therefore the ministry of education should introduce taxation course in the curriculum as a mandatory subject. This is because tax education influences tax compliance and the attitude of tax payers. There is also

need to intensify taxpayer education in terms of increasing the number of sessions and broadening coverage to enlighten the taxpayers on existing law and any other tax liability relating to their businesses.

5.4.3 Online Filing

Electronic filing of returns is a very convenient way of ensuring compliance; however there are some taxpayers who still do not know how to navigate through the website without assistance. Most of these taxpayers have limited resources in terms of manpower and therefore find it uneconomical to visit KRA for trainings; KRA should therefore launch a tax week preferably before the tax filing season and visit taxpayers in their premises to teach them how to use the online platform. It should later on do follow up on the already trained taxpayers as part of its public relations exercise.

5.5 Limitations of the Study

The study had some limitations on response rate. One of the reasons for this is that the small medium traders in Nairobi central business were reluctant to fill the questionnaire for fear that the responses would be used against them or the responses revealed to the tax authorities. However, the limitation was mitigated by assuring the respondents that data collected from them were used for academic research only.

5.6 Suggestions for Further Studies.

The study assessed the factors affecting taxpayer facilitation on compliance of small and medium scale traders in Nairobi business district. The study was however limited to the small medium scale traders. It is therefore suggested that future studies focus on other large entrepreneur and government agencies for purposes of comparison. A comparative study

should also be conducted on other challenges leading to non-compliance of small and medium companies in Kenya.

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APPENDICES

Appendix I: Introduction Letter

GENEVIEVE OCHAR

P. O BOX

DATE.....

Dear Respondent,

RE: PARTICIPATION IN RESEARCH

I am a Postgraduate Diploma student pursuing Tax Administration in Kenya School of Revenue Administration (KSRA). As in order to meet the requirements of this course, I am conducting a research on **EFFECT OF TAXPAYER FACILITATION ON VALUE ADDED TAX COMPLIANCE: A CASE OF SMALL AND MEDIUM SCALE TRADERS IN NAIROBI'S CBD**. I would therefore kindly ask you to participate in this study by helping me answer questions in this questionnaire. Please answer all questions freely and in honesty. Your actual name will not be revealed to anyone and the data you provide will only be used for the purpose of this academic study. Your participation is important for the success of this project and I would highly appreciate your contribution.

Thanking you most sincerely in advance.

Yours Faithfully,

Sign.....

GENEVIEVE OCHAR

Appendix II: Questionnaire

Dear Respondent,

This questionnaire seeks to collect information for an academic study on the **effect of taxpayer facilitation on value added tax compliance: a case study of small and medium scale traders in Nairobi**. You are kindly requested to provide answers to these questions as honestly and precisely as possible. Responses to these questions will be treated with utmost confidentiality and will only be published as anonymous statistical details.

Please tick where appropriate or fill in the required information on the spaces provided

SECTION A SOCIAL AND DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

No.	Questions	Response
1.	Gender	Male 1
		Female 2
2.	Age	(a) 18-25 ()
		(b) 26-35 ()
		(c) 36-45 ()
		(d) 46-55 ()
		(e) 56-& above ()
3	Highest Level of Education	(a) Primary ()
		(b) High School ()
		(c) Tertiary ()
		(d) University ()
		(e) Other...specify ()

4	Name of your company (optional)	
5	Length of business (in years)	(a) 1-3 Years () (b) 4-6 Years () (c) 7-9 Years () (d) 10 & above ()
6	Company's annual turnover (in million Kshs)	(a) 0-5 Million () (b) 6-10 Million () (c) 11-15 Million () (d) 16 & above ()

SECTION B EFFECT OF TAXPAYER FACILITATION ON VALUE ADDED TAX COMPLIANCE BY SMES

7. On a scale of 1-5 where *1= strongly disagree, 2= disagree, 3=Not sure, 4=agree, 5=strongly agree*, what is your opinion on the following suggestions regarding the effect of taxpayer facilitation on tax compliance by small and medium scale traders in Nairobi?

Taxpayer facilitation & VAT compliance by SMEs	1	2	3	4	5
i. Many SMEs are enabled to file their returns as required by the law					
ii. Many SMES are enabled to pay their taxes promptly					
iii. All relevant mechanisms are in place to ensure tax compliance by SMEs					
iv. KRA is regularly in touch with SMEs to facilitate tax compliance					
v. A lot needs to be done to improve taxpayer facilitation for SMEs					
vi. I often file my returns before deadline					
vii. I have ever paid a penalty to KRA					
viii. I have ever been charged interest on penalty					

PART I: CUSTOMER CARE SERVICES AND VAT COMPLIANCE BY SMEs

8. On a scale of 1-5 where *1= strongly disagree, 2= disagree, 3=Not sure, 4=agree, 5=strongly agree*, what is your opinion on the following suggestions regarding the effect of customer care services on tax compliance by SMEs in Nairobi?

Customer care services	1	2	3	4	5
i. I have ever been given assistance by KRA staff on filing my tax returns					
ii. I know a friend who has ever been given assistance by KRA staff on filing my tax returns.					
iii.I draw a lot of satisfaction from KRA’s customer services					
iv.Many traders in the SMEs sector draw a lot of satisfaction from KRA’s customer services.					
v. KRA needs to improve on its customer care services					
vi.KRA has created enough awareness of existing customer care services					
vii. KRA call centre lines are always open and responsive					

PART II: TAXPAYER EDUCATION AND VAT COMPLIANCE BY SMEs

9. On a scale of 1-5 where *1= strongly disagree, 2= disagree, 3=Not sure, 4=agree, 5=strongly agree*, what is your opinion on the following suggestions regarding the effect of taxpayer education on tax compliance by SMEs in Nairobi?

Taxpayer education	1	2	3	4	5
i. The system is too complicated for me to promptly pay my tax					
ii. The system is too complicated for me to promptly file tax returns					
iii. I have been adequately trained on the importance of filing tax returns					
iv. I often learn through brochures, booklets, or seminars on tax compliance					
v. KRA has played a significant role in enlightening SMEs on tax compliance					
vi. I have been adequately made aware of the process of filing my returns					
vii. I have been adequately made aware of the process of paying for my taxes					

PART III: ELECTRONIC/iTAX FILING SYSTEM AND VAT COMPLIANCE BY SMEs

10. On a scale of 1-5 where *1= strongly disagree, 2= disagree, 3=Not sure, 4=agree, 5=strongly agree*, what is your opinion on the following suggestions regarding the effect of electronic/iTax filing system on tax compliance by SMEs in Nairobi?

Electronic/iTax filing system	1	2	3	4	5
i. I have ever used e-filing to file my tax returns					
ii. I am knowledgeable about tax registration on iTax system					
iii. I am knowledgeable about tax returns filing on iTax system					
iv. Online filing platform is a more convenient way for filing my taxes					
v. I always seek assistance from friends, relatives, or cyber café operator					
vi. iTax interface is user friendly					
vii. Filing taxes is convenient on iTax					
viii. iTax platform should have an alternative language(Swahili)					

11. In your opinion, what does KRA need to do so that taxpayer facilitation can have a greater impact in improving tax compliance by SMEs in Nairobi?

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Thank you very much for taking time to complete this questionnaire.

Appendix III: List of Traders

1	Alfuraat Limited
2	Ajman Electronics Limited
3	Kahaah Electronics Limited
4	Aden Bay City Hotel
5	Supa Digital Electronics Limited
6	One Electronics Limited
7	Alyassin Electronics Limited
8	Unicolors Limited
9	Cellcare Electronics Limited
10	Valid Electronics Limited
11	Flomu Tech Investments Limited
12	Alpha Electronics Limited
13	Boxlight Electronics Limited
14	Portcom Limited
15	Pwani Restaurant
16	Compsy Tech Electronics Limited
17	Ujuzi 2 Electronics Limited
18	Powernet Enterprise Limited
19	Biid Electronics Limited
20	Esteemed Electronics Limited
21	Al Yassin Appliances Limited
22	Garun Electronics Limited
23	Dixons Electronics Limited

24	Branded Electronics Limited
25	Oman Limited
26	Royal King Electronics Limited
27	Allen Electronics
28	Rware Star Dishes
29	Ampex Outfitters Limited
30	Good Hope Restaurant
31	Quba Limited
32	Eizzy Café West African Dishes
33	Graciah Electronics Limited
34	Nomadiac Electronics Limited
35	Fgee Technology Limited
36	Luthuli Salama Hotel
37	Laza Restaurant
38	Mid land Restaurant
39	New Amar Restaurant
40	Showcase Technologies