

**FACTORS AFFECTING VALUE ADDED TAX COMPLIANCE AMONG SMALL
AND MEDIUM SIZED ENTERPRISES IN MANDERA COUNTY: THE CASE OF
TRADERS IN MANDERA TOWN**

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DECLARATION

This project is my original work that has not been presented to any other university for a degree or any other qualification.

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HDB336-C016-2212/2016

This research project has been submitted for examination with my approval as the university supervisor.

Signature Date.....

Mr. Aineah Makanga

DEDICATION

This study is dedicated to my entire family which has offered me unceasing support throughout the course of my studies. Much appreciation from me!

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I would like to give my sincere thanks to the Almighty God for granting me health, sound mind and strength to be able to pursue postgraduate diploma in tax administration. My gratitude goes to Jomo Kenyatta University of Agriculture and Technology and Kenya School of Revenue Administration for giving me the chance to use their resources in carrying out my studies. I wish to acknowledge my supervisor Mr. Aineah Makanga for his support and guidance. My family members I sincerely appreciate you in a big way for your unwavering support.

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LIST OF ABBREVIATIONS AND ACRONYMS

DARA	Decreasing Absolute Risk Aversion
EUT	Expected Utility Theory
GDP	Gross Domestic Product
KRA	Kenya Revenue Authority
SMEs	Small and Medium-Sized Enterprises
SPSS	Statistical Package for Social Sciences
TOT	Turnover Tax
UK	United Kingdom
US	United States
VAT	Value Added Tax

ABSTRACT

It is evident from available statistics that small and medium sized businesses are major players in the value added tax system of nations. Nevertheless, of great concern in Kenya is the growing gap between the amounts of VAT returns that are remitted, the reported tax assessments and the amount of tax liabilities that paid on a voluntary basis and the rate of birth and growth of these businesses. Governments are striving so hard to deal with this challenge by dealing with the root causes. So as to achieve this, a thorough comprehension of the factors that foster value added tax compliance was crucial especially in smaller towns such as Mandera that had received little attention in literature. The study therefore, sought to establish the factors affecting VAT compliance among SMEs in Mandera County taking the case of traders in Mandera Town. The study sought to examine the effect availability of tax information, penalties and fines, non-compliance opportunities and enforcement on VAT compliance among these businesses. The study made use of a descriptive research design. The study targeted 1,642 traders in the category operating in Mandera Town. In selecting the sample, simple random sampling was used where a sample size of 164 traders (10 percent of the targeted traders) was considered. The study applied primary data that was gathered using questionnaires. The data obtained was analysed using quantitative method using SPSS. Both descriptive analysis and inferential analysis were carried out. A multiple linear regression model was used in linking the study variables. The study established that the availability of information, penalties and fines as well as enforcement had a positive significant effect on the level of value added tax compliance among the traders. However, non-compliance opportunities had a significant negative effect on the VAT compliance among the traders. The study established that of the four factors, tax enforcement had the largest effect on the compliance levels. The study concluded that when adequate and simplified tax information was availed to the traders, proper imposition of penalties and fined undertaken and effective enforcement carried out, the level of value added tax compliance would significantly be enhanced. The study also concluded that non-compliance opportunities were a threat to value added tax compliance among traders in the town. Several recommendations were made among them the need for KRA to avail all necessary tax information and which is simplified and tailor made to traders in Mandera Town using channels that are easily available to all traders. It was also recommended that KRA officials should strive to come up with ways of improving the design of tax penalties and fines systems to make them more efficient. The study also recommends that KRA officers should ensure that thorough and consistent surveillance and monitoring of the activities of the traders is conducted in order to identify the loopholes for noncompliance behaviour which ought to be sealed. The study further recommends that it is necessary for KRA to integrate various enforcement tools in reminding tax payers on the need to comply with tax laws. The findings and recommendations of this study would go a long way in guiding KRA and other policy makers in taking effective tax measures.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Tax evasion has been a worldwide and rising phenomenon. Evidence from available research studies has shown that globally, the challenges associated with the evasion of taxes cuts across both developing and developed countries (Vela, 2007; Goradichenko et al., 2009). Embaye (2009) observes that tax evasion in the US by individuals in terms of noncompliance to overall income taxes was considerable at about 16%. However, Sandmo (2005) and Arogundade (2005) argue that conceptually, tax evasion and tax avoidance are dissimilar. In addition, Arogundade (2005) asserts that the concepts of tax evasion and avoidance have an effect on tax revenue arising from leakages.

Tax compliance according to Kira (2017) is the state whereby a taxpayer either by choice or being compelled to abides by the obligations of tax laws. This is by ensuring that they file their returns on time and report all necessary tax information besides ensuring accurate self-assessment of taxes owed and remitting them on time. Normally, tax compliance is mostly attained when the largest number of taxpayers on a voluntary basis file their tax returns besides paying the ensuing tax liabilities as outlined in the available tax laws without requiring the interventions of tax agencies through enforcement (Mwangi, 2014).

Compliance of the business community to value added taxes (VAT) regulations is conceptualized to be one of the factors that accelerate economic developments in developed economies of the world (Kariyoto, 2010). According to Keen (2016), more than 80% of the nations in sub-Saharan Africa have embraced VAT and this tax system and accounts for about a quarter of the total tax revenues collected. In Kenya for instance, income tax yields the highest revenue, VAT being the second most widely based tax as it covers all vatable goods and services in Kenya (Munyoro, 2017). Theoretically, in comparison to other tax instruments, a VAT system has numerous benefits especially due to its their self-enforcing properties, which perhaps elucidates its extensive implementation around the globe (Gérard & Naritomi, 2018).

VAT is a tax on the value added to the supply by the last seller (Radhakrishanan, 2008). VAT

was taken up in Kenya in 1990 as a means of increasing the government tax collections by widening the tax base. VAT is imposed by Kenya Revenue Authority (KRA) as per the laws of the VAT Act 2013. The VAT is an indirect tax on consumption applicable on the sale of supplies at all levels of production and distribution. VAT registered taxpayers acts as agents in collecting and remitting collected VAT to the government. The VAT paid on inputs in turn is claimed as credit when registered taxpayers declare output VAT on their sales (VAT Act 2013 Sec 17). Businesses charge VAT at a rate of 0% on their supplies and are allowed to deduct the input tax paid on the purchase of those zero rated goods and services (VAT Act 2013 Sec 17).

Since small and medium businesses make a large proportion of the business network in many nations particularly the developing countries, their failure to fully comply with VAT obligations is likely to cause dire economic distortion (Mansor, & Ferdjani, 2017). It has been generally acknowledged that nations in developing world experience rather several constraints in relation to compliance with VAT obligations especially among small businesses despite their tremendous growth rates (Alabede, 2014). These businesses ordinarily considered as difficult to tax taxpayers and one of their characters is low tax compliance resulting from either ignorance or by resolve (OECD, 2012). Hence, governments are striving so hard to deal with this challenge by dealing with the root causes. So as to achieve this, a thorough comprehension of the factors that foster tax compliance is crucial (Hanlon, Mills, & Slemrod, 2007).

1.1.1 Perspectives on SME Value Added Tax Compliance

VAT system has been found to enhance the effect of an effective government spending on the economic growth of more than 115 nations across the globe (Chan et al., 2017). VAT explains about 80 percent of the total tax revenues in many nations (Saleemi, 2005). As a result, this tax system is highly susceptible to fraud and evasion. SMEs just like any other businesses are required to collect and remit their taxes and are major players in the VAT system of a nation. Even though existing evidence is not explicit (Hanlon, 2007), a large number of studies suggests that traders who are small business holders have higher likelihood to cheat and not comply when compared to other taxpayer groups (Kirchler, 2007).

The owners of small businesses are also considered by the Organization for Economic Co-operation and Development as a high-risk group in regards to compliance with tax

requirements. In several cases, proving noncompliance is also difficult. Notwithstanding the large number of cases of VAT noncompliance not only among small businesses but also large taxpayers, developing nations normally endeavor to have in place proper means to enhancing VAT compliance not only in the informal sector but also the formal sector.

Generally, VAT compliance is a point of concern across the globe and policy makers predominantly in developing nations encounter great hurdles on a daily basis (Das-Gupta & Gang, 2003). Due to its complex nature, complying with VAT obligations mirrors a great burden on SMEs when compared to other kinds of taxes (Hansford & Hasseldine, 2012). Webley, Adams, and Elfers (2019) summarizes the findings obtained by studies undertaken in Europe and Asia and submit that the losses in revenues accruing from VAT noncompliance ranged from as low as 3 percent in France and UK to a high of 40 percent in Italy. The findings showed that there was underestimation of the taxable sales values among 66 percent of the taxpayers who had been audited in France while 40 percent exaggerated the value of taxable inputs. In the Netherlands, 34 percent of enterprises were found to evade VAT.

In Jordan, Alshir'ah, Abdul-Jabbar, and Samsudin (2016) reports that cases of VAT non-compliance constituted 71 percent of the total number of noncompliance cases for the period 2011 to 2015. Out of these cases, 87 percent involved small businesses who failed to make their VAT payments. Al-Bakri, Matar, and Nour (2014) also note that only 14 percent of the small businesses adequately prepared their VAT accounting information as required. In Bangladesh, Faridy (2013) points out that even though SMEs accounted for 80 percent of employment in industries, 45 percent of value addition with the manufacturing sector and about 90 percent of the total industrial establishments, the contribution of these enterprises to total revenues in particular VAT was only 11 percent. In Algeria, Mansor and Ferdjani (2017) observe that SMEs were highly discouraged to voluntarily comply with VAT responsibilities due to the high total tax compliance burden.

SMEs in Kenya contribute to 34.3% of the total economy which also accounts for about 77% of the total employment opportunities (Ouma et al, 2007). Most of the SMEs in Kenya and those with operations in Mandera County do business informally. They are characterized by little use of labour intensive technology, most are either unlicensed or unregistered and have poor structures of organization. The Kenyan government has made several attempts to mobilize revenue from the informal sectors so as to bring into the tax bracket the

underground economy using the presumptive tax through the introduction of the Finance Bill of 2007. Nonetheless, the mentioned efforts have not achieved their desired results since most of the SMEs in Kenya evade tax since they are not properly registered in the government registry. Thus they do not pay tax since they remain undetected. While those that are properly registered tend to under declare their taxable income misrepresenting expenses thus their tax burden is lower (Ouma et al, 2007). The reasoning behind this is through tax evasion where SMEs could make saving that are passed to consumers by offering low prices thus increasing demand and competitiveness of organization but this does not happen as expected.

Masinde and Muyundo (2012) while assessing how the revenue prospective in Kenya can be unlocked recognizes that SMEs have continuously played a crucial role in ensuring the nation grows economically through indirect taxes. Nevertheless, they argue that even with major growth rates in the SME sector, KRA has encountered uncountable challenges when collecting tax revenues in the form of VAT from these enterprises. A Kenya Revenue Authority (2018) survey revealed that various issues have been contributing to noncompliance to VAT regulations by majority (54%) of the small scale traders in Kenya. Similarly, the Kenya National Bureau of Statistics (2017) pointed out that even though the government of Kenya is implementing VAT compliance regulations, majority (67%) of the micro and small enterprises in Kenya were not complaint to VAT regulations. Further, due to violation of VAT regulation, most of the SMEs are recording declined profits due inconsistencies in service (Lumumba et al., 2010).

A survey by IPSOS (2015) on that focused on knowledge pertaining to various tax issues in Kenya uncovered that a large number of SMEs, 63 percent that operate in the nation do not meet their VAT obligations resulting to slowed economic growth requiring a robust VAT system that facilitate prompt submission of value added tax by taxpayers. Furthermore, a survey undertaken by the Institute of Economic Affairs (2011) on matters to do with taxation in the nation recognizes the direct correlation between VAT and economic development regardless of the constraints faced in conforming with new VAT regulations among key industry players. The survey unearthed that notwithstanding the heightened government efforts to enhance awareness among tax payers, the cases of non-compliance with VAT requirements rose annually by 9 percent particularly among SMEs.

The KRA 6th Corporate Plan of 2015 underscores that even with the numerous administrative

reforms undertaken, generally, the levels of compliance to VAT continued to be way below expectations with VAT making only 23 percent of the total amount of revenues collected. As per the plan, KRA expected to realize a VAT compliance rate of 65 percent and growth the proportion of VAT to total revenues by 2018. Such efforts require that root causes of noncompliance behaviour are understood and effective measures are designed to handle such challenges. This study was therefore, crucial in unearthing the factors that affected VAT compliance among these small scale businesses in order to recommend specific measures.

1.1.2 Factors Influencing VAT Compliance

According to Mogeni (2014), there is a common view that there are possibilities that taxpayers can still some manipulations in their businesses or transactions with an aim of escaping considerable tax amounts. Nyaga (2014) and also Oyedokun (2015) also point out that a large number of persons that comply with tax obligations to some extent do so possibly due to the possible penalties and fines that could accrue if legal responsibility arises after being audited. Moreover, compliance among some taxpayers is informed by the fear of the likelihood of tax enforcement measures among them being audited by officials from the tax agency (Anyaduba, Eragbhe, & Kennedy; Ladi & Henry, 2015).

Olokooba et al. (2018) maintains that incessant failure to observe tax laws and the continuous growth in low compliance rates have forced governments at each and every level to reconsider the approaches to enforcing compliance in order to enhance efficiency in the administration of taxes so that the growth in tax revenues is enhanced. According to Ibrahim (2016), diverse measures for enforcing compliance are open where compliance on voluntary basis appears troublesome. Prichard et al. (2019) highlights the importance of facilitation measures that are designed to ensure that the cost of complying is reduced. These measures as stated by the authors are aimed at ensuring that tax payers for instance, comprehend their tax requirements and can easily obtain the information needed to guide them in meeting these requirements. Among the efforts considered is the simplification and stabilization of the pertinent laws and readily availing the necessary information.

Improving value added tax compliance therefore, needs efforts in reforms that are long-term in nature and this starts with organizational and managerial strengthening of revenue agencies, implementation of collection systems that are robust which include withholding and payment systems as well as ensuring that tax administration functions have capacity in

regards to filling, registration, debt collection, taxpayer services, audit, processing appeals and payment enforcement. In order to ensure that the right powers, dispute resolution processes and penalty regimes are in place, there needs to be judiciary and legal framework reforms. Progressively, there is a critical role being played by information and communication technology, for example on issues to do with third-party information, automatic gathering like natural business process by-product, verification, facilitation of real-time transaction verification and monitoring using electronic means as well as revenue risks analysis (Akinboade, 2015).

The complex nature of the governing structure and the VAT regime is a challenge and a burden to most of the SMEs that determine their compliance level which affects their growth and performance. The tax system imposes bigger expenses for the SMEs that affects their daily operations (Masato, 2009). There is a direct relationship between size and sort of punishments imposed on those not compliant and VAT compliance achievements (Friedman & Fishlow, 1994). Deficiencies in value added tax accumulation might be a consequence of frail limit of framework to identify and arraign value added tax violators. Utilization of relatives in SMEs through unpaid work likewise diminishes likelihood of recognition in this way affecting the choice of taxpayer with respect to compliance.

Small tax payers face discrimination under the normal tax system because the compliance obligations do not matter regardless how big the enterprises are, the tax rate as well as compliance costs. If compliance costs can be lowered by the government, the tax rate will increase hence the profit margin will go up, this will enhance government's tax revenues since the easy provisions for SMEs will reduce the size of formal economy and the number of noncompliance will increase with regard to registered tax payers (Vasak, 2008). The operations of SMEs usually have an imperious controlling atmosphere with plethora of regulating organizations, high port charges, numerous charges, burdensome importing procedures and several taxes that constantly put pressure on the operations (Kinyua, 2014).

1.2 Statement of the Problem

The growth of a country economy is greatly anchored on the amount of tax revenues collected and hence, high cases of tax noncompliance is a threat to economies. This is even more crucial for VAT which explains about 80 percent of the total tax revenues in many nations (Saleemi, 2005). Noncompliance behaviour among taxpayers jeopardizes the capacity

of the government to mobilize the domestic revenues required for sustained investments in development (Das-Gupta & Gang, 2003). SMEs form a large part of the tax net in a large number of developing nations and as a consequence, their level of compliance with tax laws has a direct effect on the amounts of revenues collected by governments (Atawodi & Ojeka, 2012).

The expanding gap between the amounts of VAT returns that are remitted, the reported tax assessments and the amount of tax liabilities that are paid on a voluntary basis and the rate of birth and growth of SMEs in Kenya is a cause of alarm (Masaku, 2019). Consistent with Kenya Parliamentary Budget Office (2011), even though SMEs had the potential of contributing up to KShs. 79 billion Kenya in taxes, the collections from these businesses were actually below a billion shillings a trend attributed to increased levels of non-compliance (Mage, 2012). The Kenya Revenue Authority in 2015 stressed that a large number of SMEs failed to pay their taxes and that the challenge of tax evasion continued to soar where the tax gap within this sector as at 2015 ranged from about 33.1% to 35%.

In regards to VAT, a Kenya Revenue Authority (2018) survey uncovered that more than 54 percent of small scale traders in Kenya flouted VAT obligations through noncompliance behaviour. The Kenya National Bureau of Statistics (2017) also recognized that majority (67%) of the SMEs in Kenya were not compliant to VAT regulations despite government's measures to enhance compliance. The KRA 6th Corporate Plan of 2015 also pointed out that the levels of compliance to VAT continued to be way below expectations with VAT making only 23 percent of the total amount of revenues collected. Institute of Economic Affairs (2011) also reckoned that the cases of non-compliance with VAT requirements rose annually by 9 percent particularly among SMEs. These statistics paint a picture of high noncompliance behaviour among small businesses in regards to VAT. A study investigating the factors that influence VAT compliance among these enterprises was therefore, crucial more so in smaller towns such as Mandera Town which had received little attention in existing literature.

Of paramount significance are the revenue potential opportunities in Mandera considering the towns' geographical location on the border between three countries (Kenya, Ethiopia and Somalia) and the versatile entrepreneurial communities specializing in diversified businesses along the borders, hence, the huge tax potential that remains largely untapped due to largely noncompliance aspects. There were notable research gaps in available literature. The literature

reviewed unearthed that there were mixed findings regarding the impact of the various factors examined on tax compliance. For instance, King'oina (2016) found that fines and penalties significantly improved VAT compliance among taxpayers. However, these findings contradicted that of Lewis, Webley and Furnham (2013) who found out that fines and penalties had weak consequences in deterring non-compliance behaviour among businesses. Other studies such as Mwangi (2014), Doerrenberg and Schmitz (2015), Mogeni (2014) and Prichard et al. (2019) focused on tax compliance in general yet tax compliance might differ depending on the nature of tax. This study focused on VAT compliance. Existing studies were mainly carried out in different settings from that of this study and hence, owing to differences in contextual factors, the findings of these studies could not be generalized to paint the picture in the current study area.

1.3 Research Objectives

1.3.1 General Objective

The overall study's objective was to establish the factors affecting VAT compliance among SMEs in Mandera County focusing on traders in Mandera Town.

1.3.2 Specific Objectives

- i. To examine the effect of availability of tax information on value added tax compliance among traders in Mandera town.
- ii. To establish the effect of tax penalties and fines on value added tax compliance among traders in Mandera town.
- iii. To assess the effect of non-compliance opportunities on value added tax compliance among traders in Mandera town.
- iv. To examine the effect of enforcement on value added tax compliance among traders in Mandera town.

1.4 Research Questions

- i. What effect did availability of tax information have on value added tax compliance among traders in Mandera town?
- ii. What effect did tax penalties and fines have on value added tax compliance among traders in Mandera town?
- iii. What effect did non-compliance opportunities have on value added tax compliance

among traders in Mandera town?

- iv. What was the effect of enforcement on value added tax compliance among traders in Mandera town?

1.5 Significance of the Study

There is an imbalance between supply and demand of tax revenue in Kenya shown from appraisal of budgetary process. In order to manage the fiscal deficit in the country there is need for proper revenue projection. Through this study, awareness that exist between economic growth and increases in tax revenue and how they relate with value added tax compliance among SMEs would be elaborated. This study would also contribute to existing literature on taxation in Kenya moreover shed light on the benefits of revenue productivity thereby increasing on the pace of economic growth in Kenya as it seeks to achieve its vision 2030 target. This study would offer empirical evidence on how informal sector performs on matters tax in Kenya and more specifically those operating in Mandera County. Lastly, this would also highlight issues to do with current tax system and revenue projections requirements.

1.6 Scope of the Study

This study was limited to establishing the factors affecting value added tax compliance among small and medium sized enterprises in Mandera County. While there are several factors which could be considered, this study only focused on the availability of tax information, penalties and fines, non-compliance opportunities and enforcement. The study focused on traders operating in Mandera town. The study targeted 1,642 traders in Mandera town. This study was carried out between April and October 2019.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter focuses on literature relevant in the assessment of the factors that affect SMEs' compliance with VAT obligations. This chapter covers the relevant theories, the conceptual framework of the study, the various empirical studies conducted in relation to the study subject as well as the research gaps that were identified after a critique of these studies. A summary of the chapter is then provided.

2.2 Theoretical Framework

Theoretical background is a very crucial component in social research since any study has to be underpinned by an existing theory (Twumasi, 2011). Theories are therefore necessary to enable one build a research model and guide their analysis. According to Dale (2012), theories assist scholarly in drawing new inferences, improving action and also generating more enhanced theories.

2.2.1 Expected Utility Theory

The expected utility theory applies the cumulative prospect theory to tax evasion by taking in to consideration generally two reference points in regards to two states, for instance, a case where income auditing is taken and another where income auditing is not carried out. Within their setting, there is a possibility for an individual evading taxes to be in the gains domain or losses domain in both states. In both cases, the tax evader showed the inconsistent relative static findings of the Allingham-Sandmo-Yitzhaki model that when there is increase in the tax rates, competing income and substitution effects could result to relative tax compliance. The basis is that a taxpayer who is sensible and ethical make the most of anticipated utility, which exclusively hinges on income (Allingham & Sandmo, 1972). Hence, the only motivating case is the one in which the tax payer is in the gains domain if they are not detected but in the losses domain if detected. Theoretical and empirical studies of tax compliance and evasion make a conclusion that increments in penalties and enhanced chances of being detected results to increased compliance. Expected utility theory advanced by (Yitzhaki, 1974) model of tax evasion predicted an inverse association between tax rate and evasion.

The relevance of this theory is founded on the fact that it builds on the economics-of-crime model where a person capitalizes on the probable utility of the tax evasion gamble, ensuring that they get a balance between the profits of successfully cheating and the precarious prospect of being detected and also being punished. The conclusion made from this approach is that complying to tax obligations relies heavily on tax audits and amount of fine charged. Certainly, the key conclusion is a person makes tax payments only due to the fear of being detected and punished and will make higher tax payments with enhanced fines or audit rates. The theory assisted in explaining the effect of availability of tax information on value added tax compliance among traders in regards to tax cheats and tax evades and the punishment upon detection.

2.2.2 Prospect Theory

The suggestion by this theory is that if are levied on the evaded tax, and if the preferences of taxpayers are in line with the (hypothetically and empirically acceptable) hypothesis of decreasing absolute risk aversion (DARA), then the Expected Utility Theory (EUT) model is about evasion of tax which predicts the relationship that exist between tax evasion and rates which is considered negative (Yatzaki, 1974). According to Bernasconi and Zarnardi (2004) much experimental and empirical evidence usually, forecasts that a positive association exists between tax rate and evasion. Since it lacks empirical support and being counter-intuitive in nature, the relationship between evasion and tax rate that is negative has been predicted by in the EUT model in most cases been terms at the paradox of Yitzhaki or Yitzhaki puzzle. Dhambi and Al- Nowaihi (2007) argue in their work that the prospect theory offers more accurate accounts on tax evasion which include explanations given in the Yitzhaki puzzle.

Prospect theory proposes that tax payments made in advance might play an efficient role in tax enforcement strategy. ClotFelter (1983) discovered that the rate at which taxpayers complied to tax obligations voluntarily in the United States improved steadily with the refund amounts that the taxpayers anticipated to get after filing the tax returns and declined steadily with the tax amounts that they still had to pay. Chan (2000) confirmed experimentally the empirical results from several European countries and Unites States, while Berkery (1992) documented diaries of taxpayers' tax-related thoughts and behaviors.

This theory suggests further argues that taxpayers mainly considered the out of pocket gains and losses accruing when filing their tax returns leading to the conclusion that whether

taxpayers have an expectation of receiving a refund or having to enhance their prepaid taxes is crucial for the comprehension and control of taxpaying behaviour. In other contribution, Carnes (2006) suggests that prospect theory, developed by (Kahneman & Tversky 1979), may be helpful in explaining taxpayers' observed behavior when subjected to compulsory advance tax payments. This theory was relevant for this study in explaining what need to be done to enforcement tax payment among taxpayers. Thus, this theory was useful in providing an explanation about the effect of fines and tax penalties on value added tax compliance among SMEs traders as well as the effect that exists between enforcement and value added tax compliance among SMEs traders.

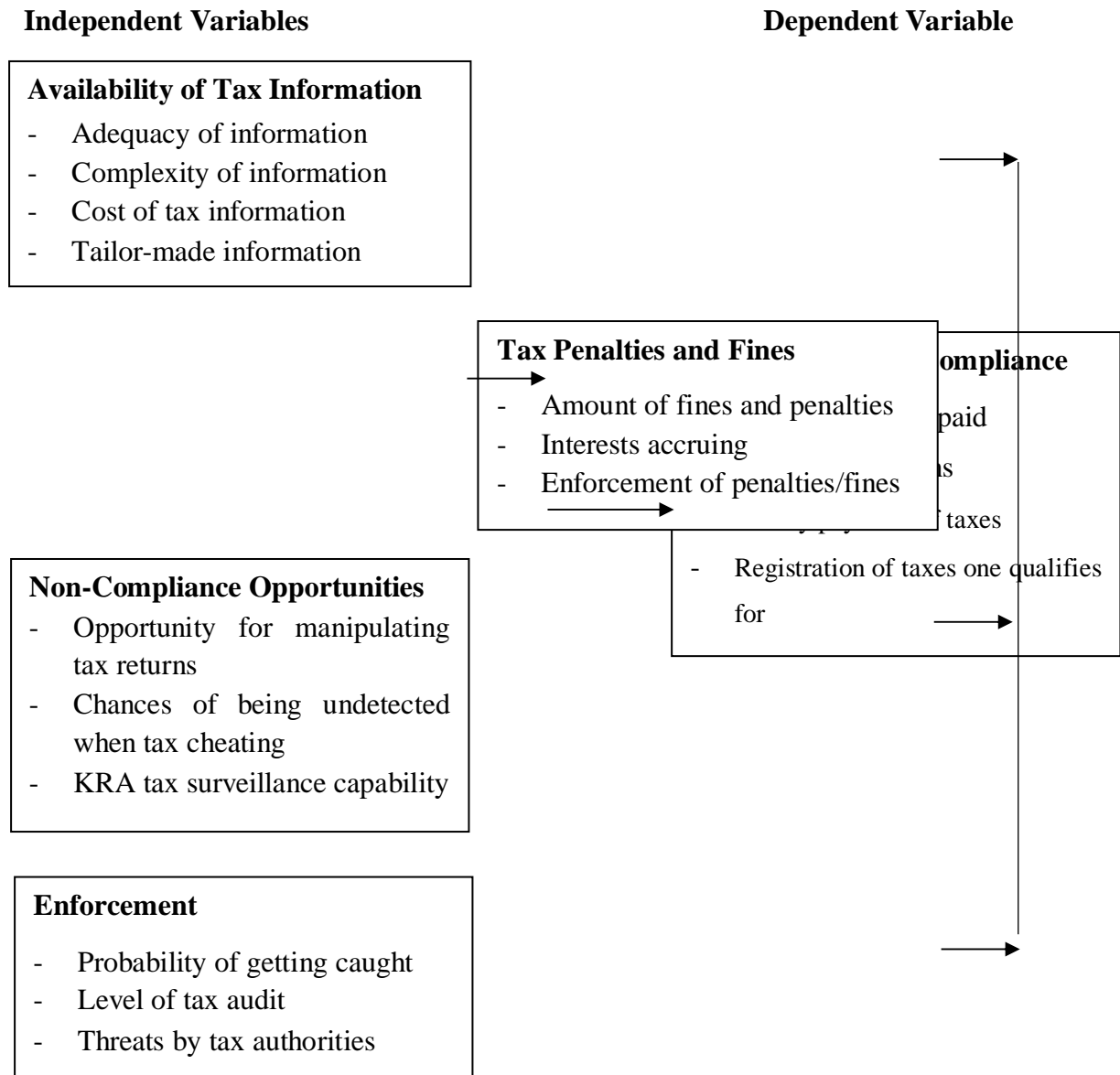
2.2.3 Theory of Crime

According to this theory, individuals as rational actors in most instances act in a way that maximizes the expected utility. In his paper, Becker (1968) was of the opinion that those in charge are required to come up with appropriate methods between detecting those not complying and the sanctions therein in ensuring that non-compliance becomes irrational to people. Allingham and Sandmo (1972) further enhanced the work of Becker on taxation and the economics of crime. They looked at the decision of taxpayers to evade tax when filling their tax returns, they also sought to find out the relationship between the possibilities of detection, the penalty rate at the time of tax evasion and tax evasion degree engaged in. In this study, they uncovered that there existed a connection between the variables reviewed. They found out that the possibilities of detection and higher penalty rates deter individuals from tax evasion.

Many scholars in the 1980s further questioned the value of deterrence alone in relation to regulating behaviour. Their focus was compliance instead of deterrence and recognized that cooperation and inducement was important as a governing tool in achieving compliance. Research has revealed that using legal force and threats mostly when perception is illegitimate produces a behaviour that is negative. With these actions, there is a likelihood of a resulting non-compliance, opposition or criminal behaviour (Fehr & Rokenbach, 2003). This theory was relevant in this study in examining what leading taxpayers to make certain decisions regarding tax payment. This theory was used to elaborate the objective on the effect of non-compliance opportunities on VAT compliance among traders.

2.3 Conceptual Framework

The study’s conceptual framework that reveals the hypothesized connection between availability of tax information, tax penalties and fines, non-compliance opportunities and enforcement as the predictor variables and VAT compliance as the dependent variable is given in Figure 2.1



Source: Author (2020)

Figure 2.1 Conceptual Framework

The variables in the conceptual framework are discussed under this section. This helps

explain their interrelation.

2.3.1 Availability of Tax Information

Ordinary models make an assumption that tax payers have access to full information pertaining to all aspects and matter touching on tax obligations and reporting processes (Alm, Cherry, Jones, & McKee, 2010). Nevertheless, this is not the case in many nations. Studies on tax issues have revealed that the amount and quality of information on tax available is a crucial determinant of taxpayer behaviour and has an impact on cases on tax evasion (Richardson, 2006). It has also been observed that tax payers with who are less educated are not adequately exposed to information pertaining the need for complying with tax obligations making them prone to tax evasion (Palil, 2010).

In addition, a number of taxpayers are challenged by the complexity of tax information available which makes it more difficult to comprehend tax compliance issues (Wadesango, Mutema, Mhaka, & Wadesango, 2018). The complexity of information is likely to result to unintended noncompliance behaviour if tax payers encounter challenges for instance, when filling their tax returns (Saad, 2014). According to Carroll (2011), tax education alone is not adequate to guarantee tax compliance. While focusing on taxation of SMEs in Ghana's informal sector, Carroll noted that even though a great number of the surveyed enterprises, 65%, were highly aware of the need to pay their taxes, more than half of these had no proper information regarding why they needed to pay the taxes and benefits accruing from such an undertaking.

2.3.2 Tax Penalties and Fines

The risk of being punished which consists of tax penalties and fines has been applied in most nations with an aim of deterring the behaviour of taxpayers to be tax non-compliant (Mohdali, Isa, & Yusoff, 2014). Penalties refer to the negative punishment of those individuals who break tax rules while fines are punishment exercised by making money payments for the violation of the set rules and the laws applicable (Savitri, 2016). Normally, the tax penalties can be imposed through administrative or criminal sanctions. There is a contention among tax experts in regards to the application of tax penalties and fines in enhancing compliance levels where some prefer tax incentives while other are for the use of penalties and fines (Levi, 2010).

The general conclusion is that in order to enhance tax compliance, the application of penalties and fines should be made in an efficient manner since these instruments can have both positive and negative impacts on tax payers (Ali, Fjeldstad & Sjørusen, 2014). Within the Kenyan perspective, the penalty for not submitting or filing VAT returns late is 5% of the VAT owed or an amounting totaling Kshs. 10,000 per tax period whichever is higher.

2.3.3 Non-compliance Opportunities

The opportunity not to comply with set tax rules and laws has been time and again recognized a key factor that explains noncompliance behaviour (Webley, 2004) and business owners are normally perceived as a high risk group when it comes to not complying with tax obligations given that their opportunities not evade taxes are very high. Perceived opportunity to not comply hinges on the fact that a person conducts self-assessment and thus, can be in a position to undertake data manipulation in order to fit what they want to pay (Keraro, Oloo, & Ragama, 2015). Normally, in situations where individuals do not consciously exploit the opportunities available, the particular conditions that lead to tax evasion opportunities might still result in non-compliance (Yong, Lo, Freudenberg, & Sawyer, 2019).

Robben et al. (2010) argues that the opportunities for noncompliance may result to growth in intentional or unintentional non-compliance. Furthermore, making the assumption that individuals are disposed to exploiting opportunities, they are able to exploit these opportunities on condition that they recognize such an opportunity in the first place (Raskolnikov, 2009). Nevertheless, the opportunity not to comply to tax obligations habitually tends to remain undetected. Gangl et al. (2015) observes that whereas a majority of taxpayers recognize the opportunities for dodging small tax amounts, only a small number identify the opportunities for evading larger amounts.

Overall, the persons who in reality evade taxes observe enhanced opportunities to do so either intentionally or unintentionally even though it might prove a challenge to define whether errors observed for instance in filing tax returns were intentional or not (Ashby et al., 2009). Small scale business owners usually undertake their operations with the informal sector and for this reason, there is a belief that it is difficult for the tax agencies to get hold of them majorly due to undocumented businesses that these individuals engage in. This makes the opportunities for tax cheating high among these businesses (Albert, 2009).

2.3.4 Enforcement

Typically, tax enforcement alludes to the act of making sure that a tax payer observes the laid down tax laws and rules through the use of various tools (Oladele et al., 2019). The main aim of tax enforcement is to make sure that tax payers strictly adhere to the different forms of tax compliance that range from filing returns on time and accurately as well as paying the tax liabilities as at when they are due (Raskolnikov, 2009). Enforcement is not primarily for those individuals defaulting alone who fail to meet their tax obligations but also for those individuals who consistently file their returns in order to stimulate endless compliance (Ibrahim, 2016).

Some of the tools used in tax enforcement consist of tax audits, detaining assets and ensuing disposal of tax default property, the mandatory usage of certificates given once a taxpayer has cleared their dues in facilitating large transactions (Samuel, 2015). Tax enforcement measures find their basis on a theory proposed by Sandmo and Allingham (1972) known as the economic theory model tax compliance behaviour as a utility maximization decision where a taxpayer will consider the benefit of tax evasion against the probability of getting caught evading (paying the correct taxes plus interest and penalties).

2.3.5 Tax Compliance

This is the extent to which the persons eligible for paying taxes meet their tax duties and responsibilities in line with the laid down tax legal provisions (Wahl, Kastlunger, & Kirchler, 2010). It encompasses accurate calculation of taxes and remitting these taxes as required by the law. According to Bin Khamis, Salleh, and Nawi (2011), tax compliance is whereby a taxpayer fulfils the laid down tax laws, they declare accurate income and expenses and pay their tax dues on time. Based on these definition, being tax compliant can be assessed in four ways. Registration compliance pertains to the proportion of tax payers who are registered with the fitting ta obligations while filing compliance is concerned with the share of tax returns that are filed on time. Computation compliance measures the percent of the correct tax liability that is correctly computed and reported. Tax payment compliance measures the portion of the computed tax liability that is paid within the timelines of tax laws (King'Oina, 2016). Tax evasion is achieved through criminal acts of omission e.g. failure to register for VAT and acts of commission e.g. under declaration of sales, overstating expenses, claiming of personal expenses as if they are business expenses and misclassifying supplies to lower

rates of tax. Also a taxpayer can reduce his VAT liability by abusing the credit and refund mechanism. Tax reduction is the legal reduction of tax liabilities by employing tactics like splitting income and postponing payment of taxes (Martinez, 2001).

2.4 Empirical Review

2.4.1 Availability of Tax Information and VAT Compliance

Mwangi (2014) explored the factors that influenced tax compliance among SMEs operating within Industrial Area, Nairobi. The study found that making tax information available was a significant factor in promoting tax compliance among these businesses. Making tax information available was found to be necessary in helping the SME owners comprehend their tax obligations more so in regards to registering and filing their returns. The study discovered that a large number of business owners faced constraints in accessing tax information and that SMEs in general found the information provided by KRA fairly insufficient to assist them to file their tax returns as per the expectations especially in processes that required too much information that was complex as well. The study noted that it was crucial for KRA to provide simplified information related to periodic changes in tax laws as well as the levels of penalties and fines an exercise which should be undertaken on a regular basis. This would significantly enhance the SMEs level of compliance.

Doerrenberg and Schmitz (2015) explored the link between information provision and tax compliance in small businesses based on a field experiment in Slovenia. The study discovered that when taxpayers were informed about the civic obligation to remit their taxes and the chances of getting audited, the level of tax compliance is enhanced. The results are more enhanced when the information is delivered on a personalized basis.

Alm et al. (2010) explored the influence of the availing of taxpayer information services on tax compliance. The study found that tax information services provided by tax administrators at a low cost enabled taxpayers to calculate their tax liabilities in an easier and accurate manner besides reducing uncertainties which enhances filing and reporting compliance. The study also noted that tailor-made information that touched on all tax areas helped in reducing compliance costs especially for small enterprises. These businesses needed information that was clear and straightforward and which did not burden them with facts they do not need to know for their own purposes. The study recognized that among the challenges that

businesses encountered were the common amendments of tax laws which led to uncertainty in regards to the future tax treatment of transactions.

2.4.2 Tax Penalties and Fines and VAT Compliance

King'oina (2016) sought to find out the factors that influence VAT compliance among companies operating in the construction industry in Kisumu County, Kenya. The study discovered that when fines and penalties were effectively imposed, there was improvement in VAT compliance among the firms. The study recommended the need for KRA to devise efficient ways of successfully imposing penalties in order to enhance VAT compliance levels.

A study by Osman (2011) found out that taxpayers calculate the amount in monetary terms that their consequences are likely to get for non-compliance. The different compliance alternatives they face include whether to evade tax or not, the possibility of getting caught and penalties therein. With this information they choose the alternative that they feel maximizes their returns for compliance or non-compliance.

A study by Hendy (2013) established that payments arising for non-compliance in terms of penalties and fines are cheaper than the costs that are associated with tax lawyers and tax consultants. He further argues that costs of compliance are lower than costs of non-compliance. According to him organizations that are effective view tax non-compliance penalties, fines and interests as expenditure that can be avoided, accordingly they make arrangements that ensure that they are able to act accordance to the expectations of the nation in relation to tax requirements.

Kicher (2013) in his paper established that taxpayers in most cases work harder to increase monetary benefits by considering threats of being discovered and made to pay fines and penalties arising from non-compliance actions taken in relation to tax requirements. A study by Alm (2013) concluded that the impact of penalties and fines to taxpayers in relation to non-compliance is almost zero. Some respondents were of the opinion that fines and penalties were the only means to punish taxpayers by revenue authority but they never considered it a way of fostering non-compliance or compliance.

A study by Lewis, Webley and Furnham (2013) found out that fines and penalties were weak consequences to deter non-compliance. They advised that policies such as penalties and fines could only act as deterrence if effectively used in an arrangement with regular audits. Few

audits could be carried out in a self-assessment system owing to the fact that the system is founded on taxpayers' honesty which however is a dream for developing countries that have economies that are sluggish since it will be tough to get taxpayers that are trustworthiness.

Craig and Kidder (2011) established that taxpayer always work to increase their benefit through a thorough reflection of threats of not being discovered and reproached as a result of non-compliance in relation to actions that pertains requirement of tax. Thus, they concluded that taxpayers are encouraged to increase their levels of compliance whenever there is a greater chance of them being discovered as a result of their non-compliance activities being reviewed. Due to this it is important to get an understanding about the effect of tax penalties on SMEs compliance and the part SAS perform in influencing the attitudes of taxpayers.

2.4.3 Non-Compliance Opportunities and VAT Compliance

Mbugua, Mwambia, and Baimwera (2017) analyzed the factors that impacted tax compliance among SMEs in Kiambu County. The study findings revealed that noncompliance opportunities had an effect on tax compliance behaviour. It was established that when taxpayers perceived that the capacity of tax authorities to detect tax evasion was weak and that offering bribes was cheaper, they were likely to tax cheat. The study discovered that corrupt officials played a role in tax noncompliance.

Adhiambo (2019) investigated the factors that explained tax compliance concentrating on small scale traders operating in Nakuru Town. The study found that perceived opportunity for evading taxes had a weak effect on tax compliance since the issues of avoidance, gains, ethics and social influence are personal choices that thus much could not be changed since they deal with the morality. It was established that among these traders, the levels of perceived opportunity of evading tax were low particularly in regards to manipulating tax returns. The findings unearthed that the traders were aware of the punishment accruing from under reporting and the capability of the tax authority to scrutinize tax issues and therefore, perceived the probabilities of being detected for such crimes as high.

Mogeni (2014) examined the influence of the cost of complying with tax responsibilities on compliance among listed companies at NSE. The study noted that perceived opportunity for evading taxes resulted to reduced tax compliance levels. The study highlighted that where the opportunity for noncompliance existed, prompted opportunity to cheat enhanced non-

compliance not considering whether the taxpayer essentially planned to be non-compliant or not. The findings revealed that the firms manipulated their tax returns figures since back up documents did not require to be sent to KRA. The study underscored the need for sealing any loopholes that might promote tax evasion through enhanced scrutiny and monitoring.

2.4.4 Enforcement and VAT Compliance

Ndumia (2015) investigated the influence of enforcement measures on VAT revenues among large taxpayers in Kenya. The study observed that existed a positive relationship between audit rate and VAT revenue. The effect was medium and significant. The findings implied that an increase in audit rate results to increased VAT revenue. The large audit rate coefficient also meant that tax audits were an effective enforcement strategy for ensuring compliance for the Kenyan tax authority. The study concluded that governments could increase their VAT revenue by increasing the audit rate and strictly enforcing the audit rate as a measure of tax compliance.

Prichard et al. (2019) assessed the innovations in tax compliance. The stud underscored that the level of complying with tax obligations were likely to be enhanced when there was heightened enforcement. The study pointed out that measures to reinforce enforcement encompassed increased investment in developing expansive capacities to undertake tax assessments and audits, adoption of advanced IT systems tailored to minimize the scope for tax avoidance, enhanced methods of tax collection, measures for expanding the access to third-party information and also changes in policies that are meant to reduce tax evasion.

Hyun (2005) established that enforcement measures vary with their level of effectiveness and they include audits, imposition of penalties and fines and legal or criminal sanctions. Tax audit was among the most efficient policies to protecting tax noncompliance behaviour. According to Hyun, the audit levels could be determined by two components, that is, the number of taxpayers that were selected for auditing and how intensive the audit was.

Feld and Tyran (2012) in their experiment study established that tax compliance is usually higher on average in endogenous penalty treatment whereby taxpayers are given the option to reject or approve the penalty proposal as opposed to a situation of exogenous penalty treatment where the experimenter imposes penalty. They found out that legitimacy where people are allowed to vote on a penalty aids people to show higher tax morale. They further

established that there are higher compliance rates if there is acceptance of penalty than where there is rejection.

A study by Bergman (2003) in Argentina investigated tax compliance behaviour using two methods; audits and extensive campaigns that will increase detection probability among taxpayers and measures adopted by governments to enhance taxpayers in the commercial category. The study findings suggested that an increase in the number of audits and detection probability taxpayers were encouraged to obey tax laws thereby reporting their income accurately which positively affect tax revenue. The paper proposed that there are cases where unintentional evasion occurs rather than intentional. Apart from this, the study found out that when taxpayers were conscious of not being caught through the absence of investigation, they became highly difficult and incorporated tax evasion tactics and documentations that were hard to trace with the intention of evading tax and paying less if they had to pay.

2.5 Critique of Existing Literature

The literature reviewed revealed that several studies had been conducted to show the link between availability of tax information, penalties and fines, non-compliance opportunities and enforcement and tax compliance. These studies include that of Mwangi (2014), Doerrenberg and Schmitz (2015), Alm et al. (2010), King'oina (2016), Hendy (2013) and Ndumia (2015). The review showed that clearly, the factors explored influence tax compliance in one way or another. Nevertheless, the studies that specifically focused VAT compliance among SMEs were scanty and that most studies viewed tax compliance in general. The review also showed that there were some contradictory findings regarding the impact of some of these factors on tax compliance and that studies focusing on SMEs in Mandera County were non-existent in regards to the study subject. Therefore, this study would be of great importance in expanding the body of knowledge and evidence regarding the influence of various factors on VAT compliance based on a Mandera County perspective.

2.6 Summary of Research Gaps

A number of research gaps were noted while conducting the literature review. First, the studies by Mwangi (2014), Doerrenberg and Schmitz (2015), King'oina (2016), Mbugua, Mwambia, and Baimwera (2017) and Adhiambo (2019) were carried out in different settings from that of this study and hence, owing to differences in contextual factors, the findings of

these studies could not be generalized to paint the picture in the current study area. This implied that a contextual gap had been noted in available literature.

From the review, it was uncovered that many studies such as Mwangi (2014), Doerrenberg and Schmitz (2015), Mogeni (2014) and Prichard et al. (2019) focused on tax compliance in general yet tax compliance might differ depending on the nature of tax. This study focused on VAT compliance. Even though King'oina (2016) focused on VAT compliance, the focus was in construction firms unlike SMEs in the context of this study. Ndumia (2015) also focused on VAT compliance in large taxpayers which differed from the focus of this study. The review showed that generally, VAT compliance among SMEs had been underexplored.

The review also unearthed that there were mixed findings regarding the impact of the various factors examined on tax compliance. For instance, King'oina (2016) found that fines and penalties significantly improved VAT compliance among taxpayers. However, these findings contradicted that of Lewis, Webley and Furnham (2013) who found out that fines and penalties had weak consequences in deterring non-compliance behaviour among businesses. Furthermore, even though Mogeni (2014) found that perceived opportunity for evading taxes resulted to significantly reduced tax compliance levels, Adhiambo (2019) on the contrary found that perceived opportunity for tax evasion had an insignificant impact on tax compliance. Therefore, this study was necessary to fill these gaps by providing a perspective of SMEs in Mandera County.

2.7 Chapter Summary

This chapter provided a discussion on theories that were relevant to the study. It had also reviewed literature related to the following areas: availability of tax information, penalties and fines, non-compliance opportunities and enforcement and how they affected VAT compliance. Clear delineation of the conceptual framework showing the connection between the variables had also been elaborately depicted and discussed. From the literature reviewed, the different factors explored had different effect on the level of tax compliance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the research methodology utilized when conducting this study. The chapter discusses the research design, study population, the sample size and sampling techniques. Further to this, the chapter presented sections on instrumentation as well as data analysis and presentation.

3.2 Research Design

The research design adopted in this study was a descriptive research design which is defined by Kothari (2014) as a scientific method which encompasses observation and description of the behaviour of a subject without manipulating it in any way. This design was considered as the most appropriate in this study since the study elements were being observed in unchanged and completely natural setup while giving data that was analysable. In addition, this study design allowed the researcher to collect an in-depth data what could either be quantitative or qualitative.

3.3 Target Population

According to Mugenda and Mugenda (2012), the target population for a study refers to a complete set of elements/individuals that have the same shared observable features. Therefore, the target population for this study was a total of 1,642 traders of small and medium enterprises that were operating in Mandera town. The population chosen for purposes of this study had similar features. The participants had other features that enhanced data collection that was comprehensive since this cluster had merits of a good population sample thus representation, diversity, accessibility and had the information that was required for investigation.

3.4 Sample Size

As a result of the highlighted population, the sample size selected was 10%, representing one hundred and sixty-four (164) participants. The sample size selection was guided by Neuman (2007) who argues that for any populations that are under 1,000, a researcher needs sampling ratio that is larger that is about 30% while for a population that is moderately large that is

1,000 and above a sampling ratio that is smaller about 10% is required and is considered equally accurate. On the other hand, Kombo and Tromp (2009) were of the view that there was no common rule used to determine that appropriateness of sample sizes and further argued that a sample size for a study should be about 15-30 percent of the total population.

3.5 Sampling Technique

Mugenda and Mugenda (2008) argue that the elements selected from the population under review should correctly portray descriptions of the population they are selected from. In this study the researcher used simple random sampling method. All the traders in Mandera Town had a chance of being selected to take part in the study. The main aim of using this sampling technique was to minimize on sampling bias and also ensure that the researcher drew a representative sample that would paint a true picture of VAT compliance among traders in the town and how it was affected by the factors under study.

3.6 Data Collection Instruments

Instrumentation is defined by Sekaran (2008) as the whole process required in data collection. This means that the study considered the conditions under which the study instruments were established as well as involvement of the selection of instruments. Instrumentation specifies location of data collection, time of data collection and how the data was collected.

The study used questionnaires to collect data. This instrument was considered in this study because it contains a set of questions that are uniform, provides flexibility whereby even an untrained person can be used to administer the survey. At the same time questionnaires are less expensive and can quickly be scored. According to Orodho (2005) data collected from a questionnaire represents the most popular quantitative method since data is easily expressed in numerical forms. The questionnaire formulation was guided by the study objectives and questions.

3.7 Data Collection Procedures

According to Kothari (2014) data collection adopted by a study specifies the procedures and processes used in data collection. This study used a structured questionnaire to guide in the collection of research data. Sekaran (2008) argues that questionnaires can be administered to participants electronically, personally or mailed to participants. In this study the questionnaires were personally administered to participants and collected after filling by the

researcher.

3.8 Data Processing and Analysis

Once the data was obtained, it was prepared for analysis by further editing for completeness, facilitate coding and making entries in Statistical Package for Social Sciences (SPSS Version 20.0). This was necessary to make sure the data was consistent, accurate, complete and entered uniformly. Data was arranged to simplify tabulation and coding. The study then conducted both inferential and descriptive statistics. Descriptive analysis was carried out involving the use of frequencies in both relative and absolute forms (percentages). Measures of central tendencies and dispersion were also considered thus mean and standard deviations respectively. In addition, the study conducted inferential statistics to show the magnitude and nature of the relationships that existed between the independent variables. Regression analysis was established from the data collected to make more generations of conditions. The study regression analysis for this study took the following model:

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

Where:

Y= Valued Added Tax Compliance

α = Constant

$\beta_1 - \beta_3$ = Beta coefficients

X_1 = Availability of tax information

X_2 = Tax penalties and fines

X_3 = Non-compliance opportunities

X_4 = Enforcement

ϵ = Error term

3.9 Ethical Considerations

While carrying out the study, the researcher made sure that they adhered to various ethical principles. The researcher requested for authorization and approval for carrying out the study from the postgraduate department at the university. Upon getting the approval from the university, the researcher sought the informed consent of the traders who took part in the

study. The researcher ensured confidentiality at all times by using codes on the data instruments thus, the names of traders were not written and anonymity of the identity of the traders was safeguarded using random numbers. The researcher strictly constricted the use of gathered data to academic purposes only and ensured that respondents participated at their own will without coercion or bribery. The researcher did not offer any inducements whatsoever to encourage participants to participate in the study, duly acknowledged authors and works cited and finally and above all, they maintained high level of openness and honesty when interacting with the respondents.

CHAPTER FOUR

RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the study results achieved from the study objectives. The chapter makes a presentation of the results where both descriptive and inferential statistics were extracted.

4.2 Response Rate

In a survey study it is necessary to have an adequate response rate so as to produce results that are accurate and useful for reporting. It was, therefore, important to establish how many participants responded from the sample population with the intention of gauging whether the response rate was representative and adequate in relation to the population. The results are as presented in Table 4.1.

Table 4.1: Response Rate

Respondents	Frequency	Percent
Responses	128	78.0
Non Response	36	22.0
Total	164	100.0

Source: Field Data (2019)

The researcher administered one hundred and sixty-four questionnaires to the participants targeted as the sample size of the population. Out of the 164, only 128 filled and returned the questionnaires for analysis representing 78.0% response rate. This response rate was considered as good enough and representative of the population and which could allow for adequate data analysis in line with Mugenda and Mugenda (2008) who recommend a response rate of 50% and above.

4.3 Demographic Data

The information pertaining to the gender of the respondents, their age, highest level of education, the sector of the business and the total amount of money the traders made at the end of the day from sales in Kshs is provided in this section.

4.3.1 Respondents' Gender

Since people of different gender might have different opinions in regards to the study objectives, the researcher requested information on the gender of the participants. The findings are given in Figure 4.1.

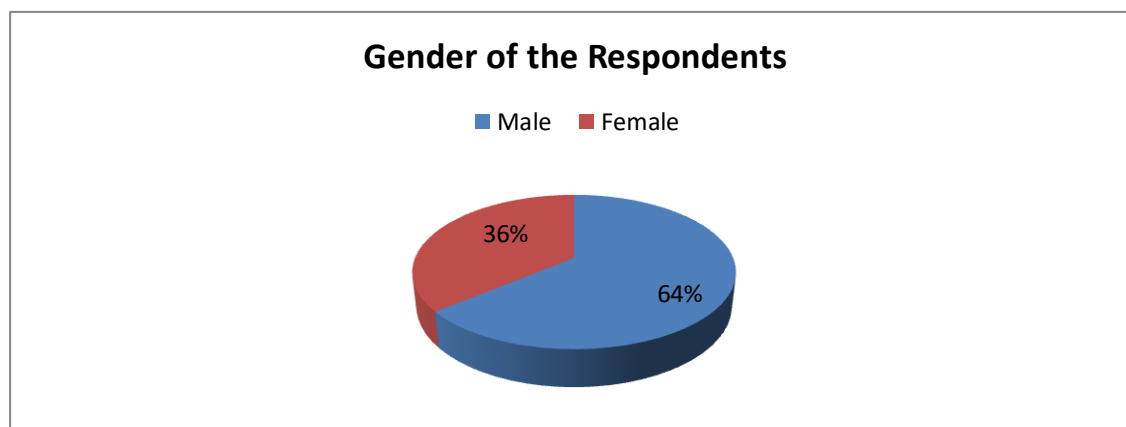


Figure 4.1: Respondents' Gender

Source: Field Data (2019)

The study found as indicated in Figure 4.1 that most of the traders were male representing 64% while 36% of the respondents were female. It can be inferred from the findings that most traders operating in Mandera town are male.

4.3.2 Respondents' Age Bracket

The study sought to establish from the participants what their age groups were since different age sets have different opinions on issues more especially on matters to do with factors affecting VAT compliance among SMEs.

Table 4.2: Participants' Age Group

Age Bracket	Frequency	Percent
Below 30 years	29	22.7
31 to 40 years	37	28.9
41 to 50 years	46	35.9
Above 50 years	16	12.5
Total	128	100.0

Source: Field Data (2019)

As shown in Table 4.2, 22.7% of the traders were aged below 30 years, 28.9% were in the age bracket of 31-40 years, 35.9% were aged 41-50 years while those aged above 50 years were 12.5%. The implication of these study results is that traders in Mandera town are represented in all the age groups.

4.3.3 Highest Level of Education of Respondents

The highest level of education affect the way people comprehend various issues which affects their ability to provide relevant information in regards to the study subject issues. The respondents were asked to state the highest level of education achieved and the findings are as shown in Figure 4.2.

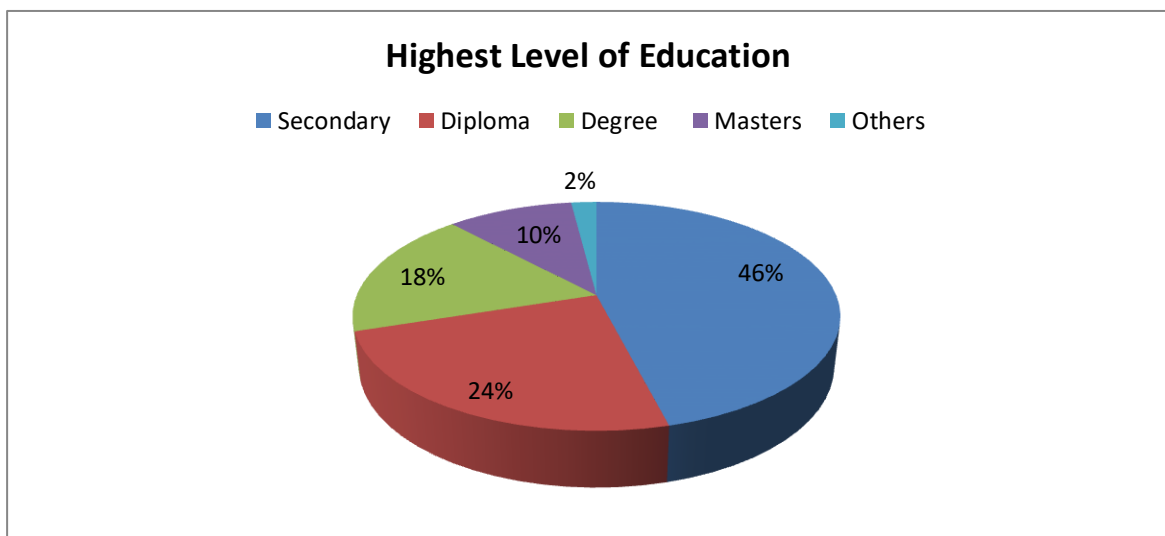


Figure 4.2: Highest Level of Education

Source: Field Data (2019)

From the study findings in Figure 4.2, a large number of the respondents, 46%, had secondary level education followed by those with diplomas representing 24%. The study results show that 18% of the respondents had attained an undergraduate degree while 10% of the respondents had a masters degree. The implication of this study is that the respondents who participated in this study had the basic education to enable them provide articulate answers to the study questions asked in relation to the factors affecting value added tax compliance among SMEs in Mandera town.

4.3.4 Traders' Business Sector Representation

The study examined the sectors in which the businesses were operating in. This was necessary since the type of business one operated could determine whether the trader was tax compliant or not. The study findings are given in Figure 4.3.

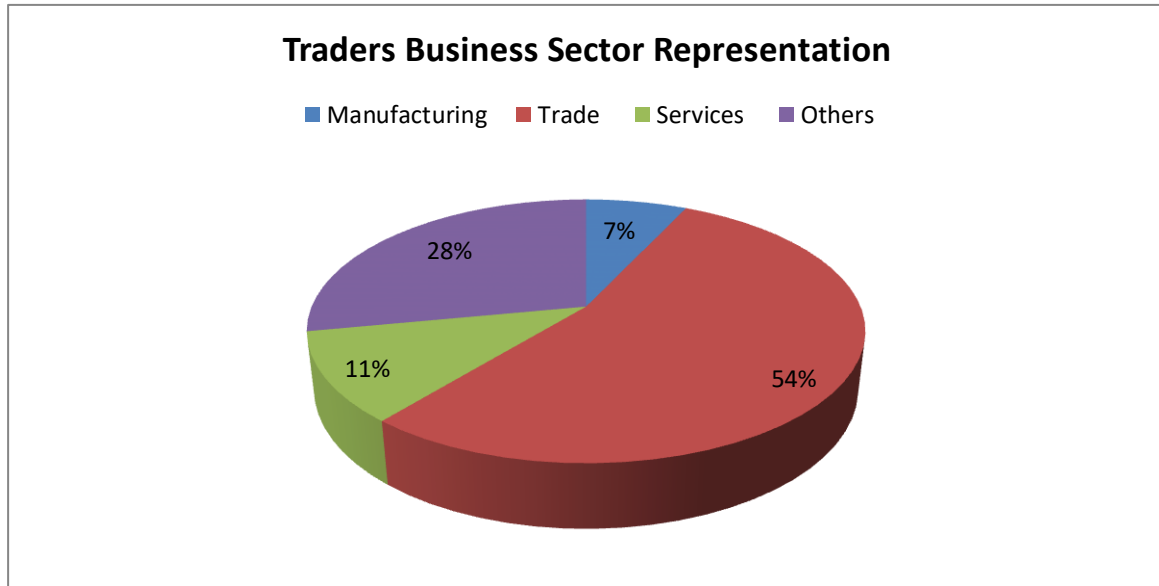


Figure 4.3: Traders Business Sector Representation

Source: Field Data (2019)

As shown from the study results in Figure 4.3, slightly more than half of the respondents, 54%, were operating businesses in the trading sector, 28% of the respondents stated that they were operating businesses within the manufacturing sector while 11% of the respondents had service offering businesses. The implication of this finding was that the study participants were drawn from businesses operating in different sectors that are expected to pay value added taxes.

4.3.5 Total Amount of Money Made in a Day

The study also determined the total amount of money the traders made at the end of the day from their sales in Kshs. This was important for the study because taxes paid were dependent on the amount of money a trader made. This results are as shown in Figure 4.4.

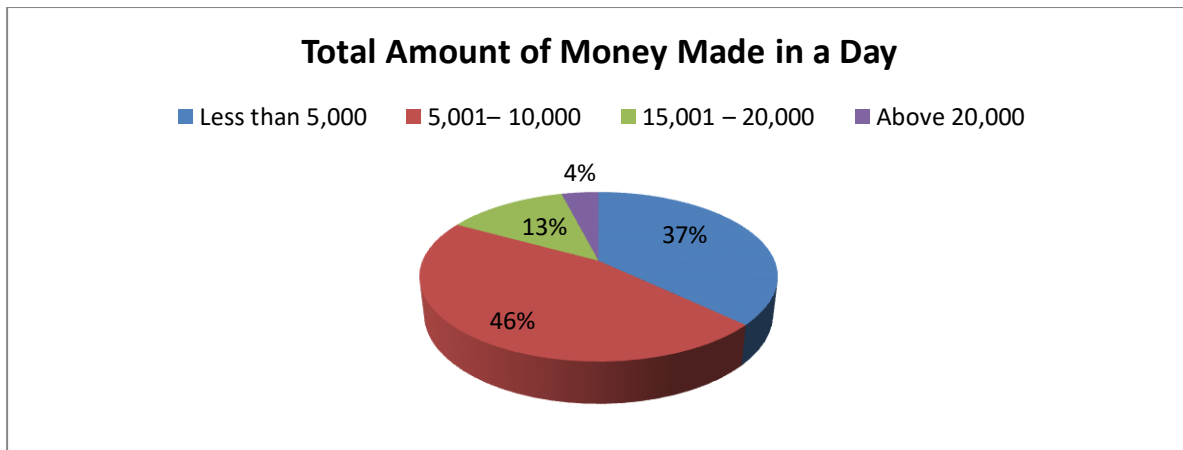


Figure 4.4: Total Amount of Money Made in a Day

Source: Field Data (2019)

As shown in Figure 4.4, a larger percentage of the participants, 46%, made between Kshs 5,001-10,000 in day as sales, 37% of the respondents made less than Kshs 5,000 in a day in sales, 13% of the respondents made Kshs 15,001-20,000 while 4% of the respondents made above Kshs 20,000 a day in sales. The implication of these findings is that traders in Mandera town make enough money in day to enable them comply to tax obligations at the end of each month.

4.4 Descriptive Statistics

Descriptive statistics for each variable were extracted. The mean of responses was interpreted as follows; a mean of (1.000 - 1.499) was an indication of strongly disagree, 1.500 - 2.499 indicated disagree, 2.500 – 3.499 was an indication of a neutral response (neither agree or disagree) while 3.500 - 4.499 and 4.500 - 5.000 indicated agree and strongly agree respectively

4.4.1 Availability of Tax Information

The traders were asked whether they thought that the availability of tax information had an effect on VAT compliance among traders in Mandera town. The study results shown in Figure 4.5 indicate that majority of the respondents, 73%, stated that they thought availability of tax information had an effect on value added tax compliance among traders in Mandera town as opposed to 27% of the participants. Based on these findings, it was clear that KRA needed to make available tax information if the authority was to improve value added tax

compliance among traders. Richardson (2006) recognizes that the amount and quality of information on tax available is a crucial determinant of taxpayer behaviour and has an impact on cases on tax evasion.

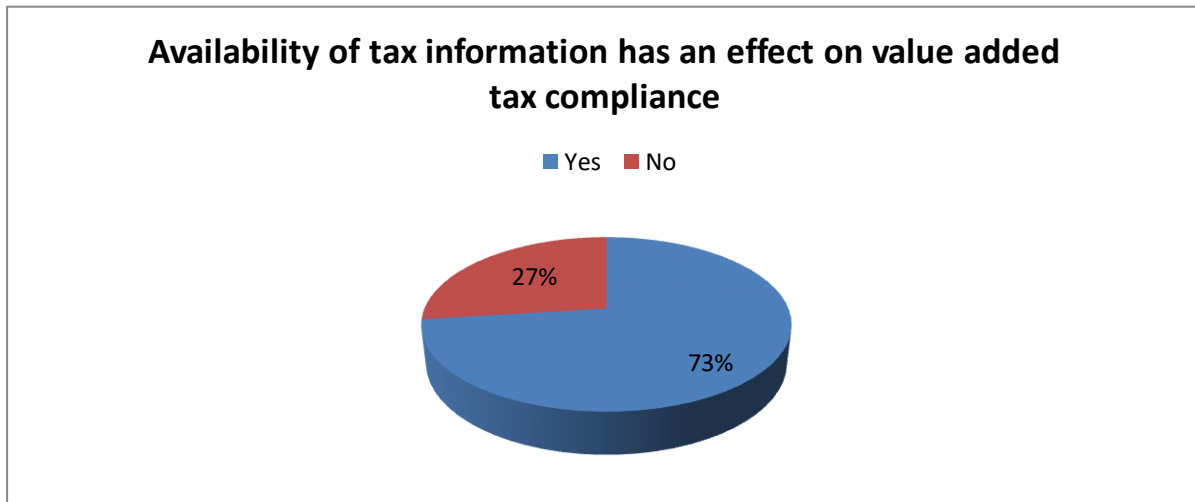


Figure 4.5: Availability of Tax Information and VAT Compliance

Source: Field Data (2019)

Some of participants stated that most of the traders lacked the necessary tax information to enable them make a decision in regards to value added tax compliance. The respondents argued that most of the traders did not have information on tax matters and those responsible for making the information available were not readily available thereby limiting their value added tax compliance. The respondents further stated that most of the traders were ignorant about VAT issues due to lack of information, thus, did not make any effort on ensuring that they paid value added tax to ensure compliance. These findings implied that the tax authority, KRA, had a long way in ensuring small businesses were equipped with crucial tax information to help them make informed choices. These findings show that the assumption made by ordinary tax models that tax payers have access to full information pertaining to all aspects and matter touching on tax obligations and reporting processes as highlighted by Alm et al. (2010) was yet to apply to the case of traders in Mandera Town.

The respondents further responded to a number of statements on the availability of tax information in relation to tax compliance among traders in Mandera Town based on a scale ranging from 1- Strongly Disagree to 5 –Strongly Agree. The findings are outlined in Table 4.3 where the mean and standard deviation were interpreted.

Table 4.3: Availability of Tax Information

Statement	N	Mean	Std. Deviation
I am highly conversant with tax laws	128	2.2143	.82799
The tax information available to us is simplified.	128	2.0714	.88807
The tax information availed to us is strictly tailor-made for our businesses	128	2.3211	.88807
KRA tax officials regularly inform us on every changes in tax laws	128	2.9898	.99995
I get all tax information free of charge	128	4.0510	1.03916

Source: Field Data (2019)

The study results as shown in the Table 4.3 indicate that the participants on average disagreed that they were highly conversant with tax laws with ($M=2.214$, $SD=0.827$). They also on average disagreed that the tax information available to them was simplified with ($M=2.071$, $SD=0.888$) and that the tax information availed to them was strictly tailor-made for their businesses with ($M=2.321$, $SD=0.888$). The study results further showed that on average, the respondents neither agreed nor disagreed that KRA tax officials regularly informed them on every changes in tax laws with ($M=2.989$, $SD=0.999$) while on average, the participants agreed that they got all tax information free of charge with ($M=4.051$, $SD=1.039$). The findings implied that traders operating in Mandera Town had not been availed with sufficient tax information needed to adequately comply with their VAT obligations.

These findings show that a large number of traders were not well equipped with adequate, simplified and tailored information pertaining to various tax issues by KRA. The findings seem to support the arguments by Kirchler and Schneider (2009) who asserted that many small business owners had conveyed ignorance in regards to the taxes that were imposed on their enterprises due to among other factors the inadequate actions taken by tax agencies which left a large number of business owners ignorant about how they could assess their taxes, the importance of remitting their taxes and the use to which these taxes were put to.

4.4.2 Tax Penalties and Fines

The study also investigated whether the participants thought that tax penalties and fines had an effect on value added tax compliance among traders in Mandera County. The study findings are as presented in Figure 4.6.

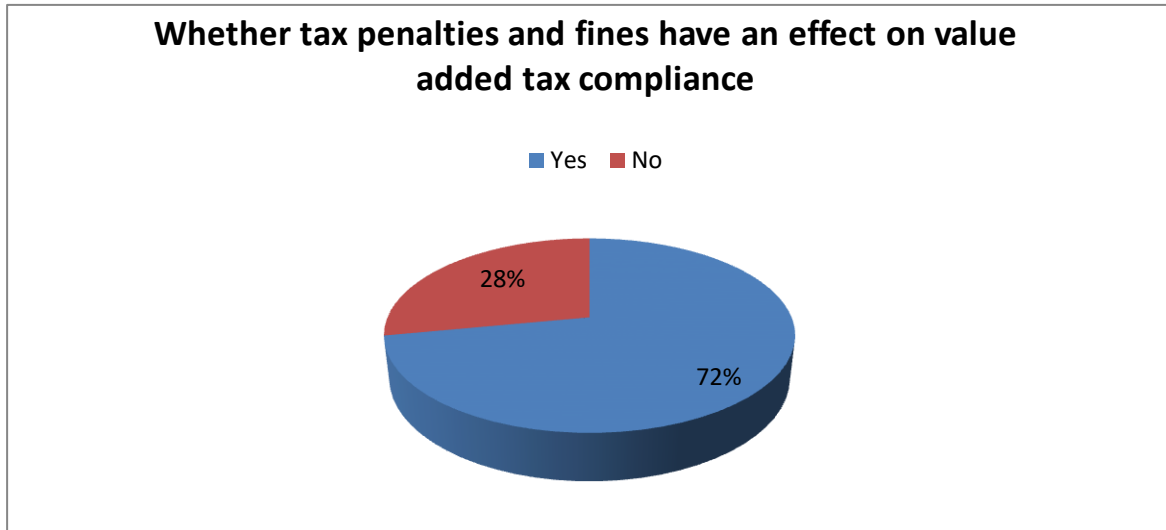


Figure 4.6: Tax Penalties and Fines and VAT Compliance

Source: Field Data (2019)

As shown in Figure 4.6, most of the respondents representing 72% noted that tax penalties and fines had an effect on value added tax compliance among traders in Mandera town as opposed to 28% of the participants. It was therefore necessary for KRA to put more effort in nabbing those who were not VAT compliant and have them pay penalties and fines accordingly so as to improve compliance levels. According to Mohdali, Isa, and Yusoff (2014), penalties and fines were important in deterring the behaviour of taxpayers to be tax non-compliant. The respondents stated that they worked harder not to be caught so as to increase their benefit but at the same time they considered the consequences arising from being exposed and reproached on matters to do with non-compliance thus affecting their value added tax compliance.

A number of statements on tax penalties and fines were further presented to the respondents who rated their degree of agreement with them. The study findings are as shown in Table 4.4.

Table 4.4: Tax Penalties and Fines

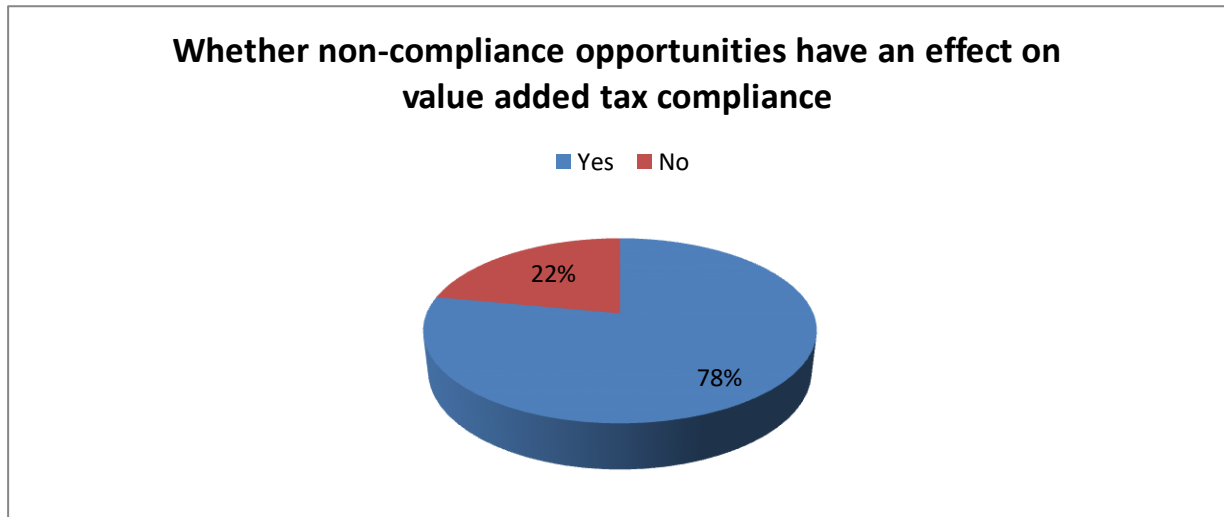
Statement	N	Mean	Std. Deviation
I pay taxes because of the amount of fines and penalties imposed is very high	128	4.0710	1.03790
I find the taxation rates set by the government to be too high	128	4.5102	1.15093
I pay my value added taxes because I fear being detected	128	4.1735	1.07479
There is serious enforcement of penalties and fines by KRA	128	4.1020	1.01015
The costs of not remitting my taxes are very high	128	4.0918	.97480
Valid N	128		

Source: Field Data (2019)

The study findings in Table 4.4 show that on average, the participants agreed that they paid taxes because of the amount of fines and penalties imposed was very high as shown by ($M=4.071$, $SD=1.037$), strongly agreed that they found the taxation rates set by the government to be too high as supported by ($M=4.510$, $SD=1.150$), agreed that they paid their value added taxes because they feared being detected given ($M=4.173$, $SD=1.074$), agreed that there was serious enforcement of penalties and fines by KRA as shown by ($M=4.102$, $SD=1.010$) and agreed that the costs of not remitting their taxes were high with ($M=4.091$, $SD=0.974$). The conclusion drawn from the study findings is that traders in Mandera Town were well aware of the costs related to tax penalties and fines imposed by the government on tax cheats and that they feared being punished for not complying with set tax laws. These study findings are in tandem with the results of Kidder and Craig (2011) who established that taxpayer always work to increase their benefit through a thorough reflection of threats of not being discovered and reproached as a result of non-compliance in relation to actions that pertains requirement of tax. Thus, they concluded that taxpayers are encouraged to increase their levels of compliance whenever there is a greater chance of them being discovered and punished through penalties and fines as a result of their non-compliance activities being reviewed

4.4.3 Non-Compliance Opportunities

The participants were asked to indicate whether non-compliance opportunities had an effect on value added tax compliance among traders in Mandera town. The study findings are as illustrated in Figure 4.7.



Source: Field Data (2019)

Figure 4.7: Non-Compliance Opportunities and VAT Compliance

The study results as shown in Figure 4.7 indicate that majority of the participants representing 78% stated that they thought non-compliance opportunities had an effect on value added tax compliance among traders in Mandera Town. This being the case, it was important for KRA officers to ensure that any loopholes for non-compliance behaviour were sealed if the authority was to enhance VAT compliance among the traders. Robben et al. (2010) argues that the opportunities for noncompliance may result to growth in intentional or unintentional non-compliance. Ashby et al. (2009) pointed out that generally, the persons who in reality evaded taxes observed enhanced opportunities to do so either intentionally or unintentionally.

The respondents also expressed their degree of agreement with statements that touched on non-compliance opportunities in relation to VAT compliance among traders in Mandera Town. The findings are presented in Table 4.5.

Table 4.5: Non-Compliance Opportunities

Statement	N	Mean	Std. Deviation
I am tax compliant because of perception	128	4.0918	1.07140
I am certain that the chances of being detected by the KRA for failing to declare the actual income that I receive are low.	128	2.1502	1.14194
I am certain that KRA has inadequate capability to frequently scrutinize all the incomes reported to them so I have a chance of not reporting my actual income.	128	1.8265	1.07479
I believe that there are still many opportunities for not paying value added taxes.	128	4.1429	1.05518
I believe that I can easily manipulate value added tax returns without detection.	128	2.1430	.8249

Source: Field Data (2019)

Results in Table 4.5 show that on average, the participants agreed that they were tax compliant because of perception given ($M=4.091$, $SD=1.071$). The study results indicated that on average, the respondents disagreed that they were certain that the chances of being detected by the KRA for failing to declare the actual income that they received were low with ($M=2.150$, $SD=1.141$) and that they were certain that KRA had inadequate capability to frequently scrutinize all the incomes reported to them so they had a chance of not reporting their actual incomes with a mean of ($M=1.826$, $SD=1.074$). The results also show that on average, the respondents agreed that they believed that there were still many opportunities for not paying value added taxes with ($M=4.142$, $SD=1.055$) while on average, the respondents disagreed that they believed that they could easily manipulate value added tax returns without detection with ($M=2.143$, $SD=0.824$). These findings implied that even though the traders believed that the chances of being detected or scrutinized by KRA if the tax returns submitted were inaccurate were high, they still believed that there were many opportunities for not paying value added taxes.

4.4.4 Enforcement

The respondents were asked to indicate whether enforcement had an effect on value added tax compliance among traders and the findings are given in Figure 4.8.

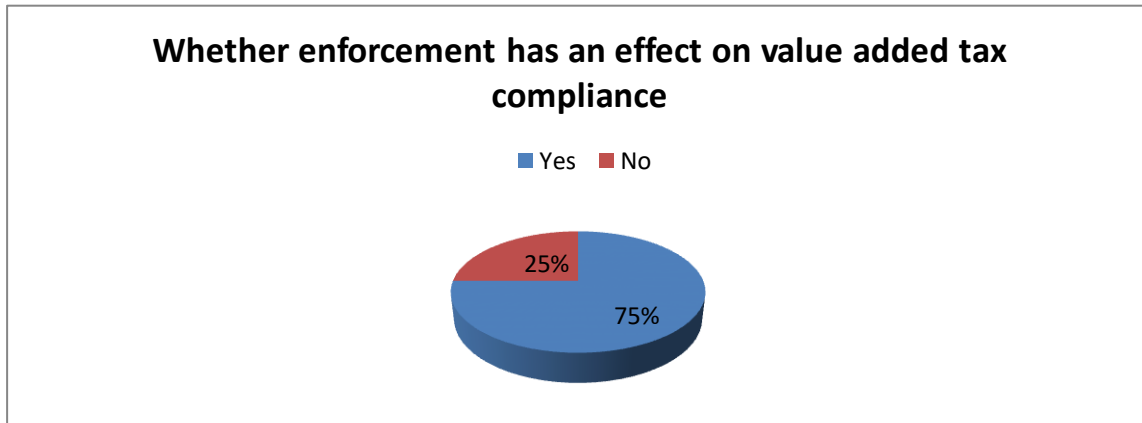


Figure 4.8: Enforcement and VAT Compliance

Source: Field Data (2019)

As shown in Figure 4.8, most of the respondents, 75%, stated that they thought enforcement had an effect on value added tax compliance among traders in Mandera town as opposed to 25% of the respondents. As indicated in the study findings it is not only necessary but also prudent for KRA to enhance their enforcement teams so that they can improve value added tax compliance among traders in town like Mandera town.

The respondents argued that if KRA makes effort to enhance the capacity of its enforcement teams in towns like Mandera, the businesses in the area were more likely to be value added tax compliant. The respondents further stated that the enforcement measure towards value added compliance in the form of administration of penalties and regular audits on non-compliant taxpayers had a positive effect on compliance.

The respondents further rated their degree of agreement and also disagreement with various statements on enforcement in relation to VAT compliance among traders in Mandera Town. The mean and standard deviation for all statements were examined and the results are given in Table 4.6.

Table 4.6: Enforcement

Statement	N	Mean	Std. Deviation
I am tax compliant because of the probability of getting caught	128	4.4265	1.13087
I do not pay tax because of the benefit of tax evasion	128	1.9388	1.06312
I am tax compliant because of the level of audit by KRA officers	128	4.3980	1.16203
KRA officers threaten those who do not pay taxes	128	4.2038	.99293
KRA audits taxpayers on filing their returns	128	4.2164	1.11980

Source: Field Data (2019)

The study findings as shown in Table 4.6 indicate that on average, the participants agreed that they were tax compliant because of the probability of getting caught given ($M=4.426$, $SD=1.130$). The respondents on average disagreed that they did not pay tax because of the benefit of tax evasion given ($M=1.938$, $SD=1.063$) while on average, the respondents agreed that they were tax compliant because of the level of audit by KRA officers as shown by ($M=4.398$, $SD=1.162$). The study results show that on average, the respondents agreed that that KRA officers threatened those who did not pay taxes with ($M=4.203$, $SD=0.992$) and also agreed that KRA audited taxpayers on filing their returns with ($M=4.216$, $SD=1.119$). From the study results it can be concluded that enforcement affects tax compliance among traders in Mandera Town. The study findings are in agreement with the findings of Hyun (2005) who established that enforcement measures vary with their level of effectiveness and they include audits, imposition of penalties and fines and legal or criminal sanctions.

4.4.5 Tax Compliance

This section investigated the extent the participants agreed with the statements relating to value added tax compliance in among traders in Mandera Town and the study findings are as shown in Table 4.7.

Table 4.7: Tax Compliance

Statement	N	Mean	Std. Deviation
I have registered as taxpayer for all the taxes I qualifies for.	128	3.0612	.99293
I pay taxes on time	128	4.1122	.91812
I make correct tax returns	128	3.2245	1.26435
I regularly update my tax journals and ledgers	128	3.0204	1.39202
I do not feel that I am forced to pay taxes	128	3.8163	1.00869

Source: Field Data (2019)

The study results in Table 4.7 indicate that on average, the participants neither agreed or disagreed that they had registered as taxpayers for all the taxes they qualified for given ($M=3.061$, $SD=0.993$) but agreed that they paid their taxes on time as shown by ($M=4.112$, $SD=0.918$). The study findings also showed that on average, the participants neither agreed or disagreed that they made correct tax returns given ($M=3.224$, $SD=1.264$) and whether they regularly updated their tax journals and ledgers ($M=3.020$, $SD=1.392$). The respondents nevertheless agreed that they did not feel that they were forced to pay taxes as shown by ($M=3.816$, $SD=1.008$).

4.5 Inferential Statistics

The study used inferential statistics to help the researcher use study samples drawn from the large study population to make generalizations of the study findings. Both correlation and regression analyses were undertaken where correlation coefficients were used in determining the association between the variables while regression coefficients enabled the researcher to quantify the effect of each factor on VAT compliance among the traders in Mandera town.

4.5.1 Correlation Analysis

Pearson's correlation analysis was applied in measuring the degree to which the study variables were associated with an aim of enabling the researcher to have a clue of the nature

of relationships the variables were likely take. The correlation matrix is provided in Table 4.8.

Table 4.8: Correlation Matrix

		VAT Compliance	Availability of Tax Information	Penalties and Fines	Noncompliance Opportunities	Enforcement
VAT Compliance	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	128				
Availability of Tax Information	Pearson Correlation	.570**	1			
	Sig. (2-tailed)	.000				
	N	128	128			
Penalties and Fines	Pearson Correlation	.679**	.451**	1		
	Sig. (2-tailed)	.000	.000			
	N	128	128	128		
Noncompliance opportunities	Pearson Correlation	-.509**	-.273**	-.375**	1	
	Sig. (2-tailed)	.000	.002	.000		
	N	128	128	128	128	
Enforcement	Pearson Correlation	.625**	.348**	.498**	-.232**	1
	Sig. (2-tailed)	.000	.000	.000	.009	
	N	128	128	128	128	128

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

The study findings in Table 4.8 shows that availability of tax information and VAT compliance among traders in Mandera Town were positively and significantly associated as shown by ($r=0.570$, $p=0.000$, $p<0.05$). The strength of the association was moderate. Similarly, penalties and fines and VAT compliance among traders in Mandera Town were found to be positively and significantly correlated though this correlation was strong as indicated by ($r=0.679$, $p=0.000$, $p<0.05$). On the contrary, the study noted that the association between non-compliance opportunities and VAT compliance among traders in Mandera Town was negative, moderate and also significant given ($r= -0.509$, $p=0.000$, $p<0.05$). The

findings further revealed that the association between enforcement and VAT compliance among traders in Mandera Town was positive, strong and significant as supported by ($r=0.625$, $p=0.000$, $p<0.05$).

4.5.2 Regression Analysis

Multiple linear regression analysis was carried out to quantify the impact of availability of tax information, penalties and fines, non-compliance opportunities and enforcement on VAT compliance among traders in Mandera Town. The first output that was generated presented the study's model summary as illustrated in Table 4.9.

Table 4.9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.827 ^a	.684	.674	.354496

a. Predictors: (Constant), Enforcement, Non-compliance opportunities, Availability of information, Penalties and fines

Source: Researcher Data (2019)

As shown in Table 4.9, the coefficient of determination (R Square) generated was 0.684 and its implication was that the factors under study specifically availability of tax information, penalties and fines, non-compliance opportunities and enforcement explained 68.4% of the variance in VAT compliance among traders in Mandera Town. The rest of the variability in VAT compliance among these traders was explained by other factors exempted in this study.

Table 4.10: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	33.446	4	8.362	66.537	.000 ^b
Residual	15.457	123	.126		
Total	48.903	127			

a. Dependent Variable: Compliance

b. Predictors: (Constant), Enforcement, Non-compliance opportunities, Availability of information, Penalties and fines

Source: Researcher Data (2019)

In order to determine the significance or the fitness of the model that was used in linking the study variables, the AVOVA results provided in the second output, that is, Table 4.10 were interpreted. The particular focus was on the F statistic and the significance value (p value) attached to it. As shown, the $F(4, 127) = 66.537$ and the p value was 0.000 which was less than 0.05 which was the critical p value in this study. Hence, the regression model fitted was considered significant or fit in showing the link between the variables.

Table 4.11: Regression coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.538	.325		1.654	.101
1 Availability of information	.299	.070	.248	4.280	.000
Penalties and fines	.274	.057	.312	4.842	.000
Non-compliance opportunities	-.113	.025	-.249	-4.515	.000
Enforcement	.336	.061	.326	5.508	.000

a. Dependent Variable: VAT Compliance

Source: Researcher Data (2019)

The regression coefficients extracted were provided in the last output as shown in Table 4.11. Based on these coefficients, the optimal model of the study was fitted as follows;

$$\text{VAT Compliance} = 0.538 + 0.299 \text{ Availability of Information} + 0.274 \text{ Penalties and Fines} - 0.113 \text{ Non-Compliance Opportunities} + 0.336 \text{ Enforcement}$$

The findings revealed that availability of tax information had a significant positive effect on VAT compliance among traders in Mandera Town given ($\beta = 0.299$, $t = 4.280$, $p = .000$, $p < 0.05$) when all the other factors were held constant. The findings meant that increasing the availability of tax information by a unit would lead to enhanced VAT compliance among the traders by 0.299 units holding other factors constant. The findings agreed with that of Mwangi (2014) who found out that making tax information available was a significant factor in enhancing tax compliance among businesses. The findings also supported that of Doerrenberg and Schmitz (2015) which revealed that when taxpayers were informed about the civic obligation to remit their taxes and the probability of being audited, the level of tax

compliance was enhanced.

Equally, penalties and fines were found to affect VAT compliance among traders in Mandera Town in a positive and significant manner as indicated by ($\beta = 0.274$, $t = 4.842$, $p = .000$, $p < 0.05$). When all other factors were held constant, an increase in penalties and fines would result to increased VAT compliance among traders in Mandera Town by 0.274 units. These findings supported that of King'oina (2016) which showed that when fines and penalties were effectively imposed, there was improvement in VAT compliance among taxpayers. However, these findings contradicted that of Lewis, Webley and Furnham (2013) who found out that fines and penalties had weak consequences in deterring non-compliance behaviour among businesses.

The study on the other hand observed a significant negative effect of non-compliance opportunities on VAT compliance among traders in Mandera Town as shown by ($\beta = -0.113$, $t = -4.515$, $p = .000$, $p < 0.05$). It was therefore, inferred that an increase in non-compliance opportunities by a unit would result to decreased VAT compliance among the traders by 0.113 units when are other factors are held constant. The study findings were consistent with those of Mbugua, Mwambia, and Baimwera (2017) who found that when taxpayers perceived that the capacity of tax authorities to detect tax evasion was weak and that offering bribes was cheaper, they were likely to tax cheat. The findings were also in agreement with those of Mogeni (2014) which indicated that perceived opportunity for evading taxes resulted to reduced tax compliance levels. The findings were however inconsistent with that of Adhiambo (2019) who found that perceived opportunity for tax evasion had an insignificant impact on tax compliance citing that the issues of avoidance, gains, ethics and social influence are personal choices that thus much could not be changed since they deal with the morality.

It was further noted that enforcement had a positive and significant impact on VAT compliance among traders in Mandera Town ($\beta = 0.336$, $t = 5.508$, $p = .000$, $p < 0.05$) whereby holding all other factors constant, enhanced enforcement by a unit yielded increased VAT compliance among the traders by 0.336 units. These findings were in support of those of Prichard et al. (2019) who found that the levels of complying with tax obligations were likely to be enhanced when there was heightened enforcement. The findings were in agreement with that of Slemrod, Blumenthal and Christian (2001) who found that when

taxpayers were threatened with enforcement measures, an increase in tax compliance was recorded.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the research results, the conclusions drawn from the study findings and the recommendations in relation to the study objectives that contributed to the existing body of knowledge.

5.2 Summary

The following section highlights the summary of the paper in terms of its objectives.

5.2.1 Availability of Tax Information

The study examined the effect of availability of tax information on value added tax compliance among traders in Mandera Town. The study noted that a majority of the traders believed that the availability of tax information affected their VAT compliance. The study discovered that even though tax information available to the traders was given free of charge, the traders on average were still not highly conversant with tax laws. The study found the information available to these traders had not been simplified or tailored strictly to their needs on average. The study also found that on average, the traders were not regularly informed on every change in tax laws by the KRA tax officials. Hence, on average, most traders in Mandera Town remained uninformed about crucial issues related to VAT despite the complexity of this tax system which affected their compliance levels. Most of the traders remained ignorant of the VAT system. The regression analysis showed that the availability of tax information had a significant positive impact on the level of VAT compliance among the traders an indication that if adequate tax information was made available to the traders, the levels of VAT compliance among them were expected to increase significantly.

5.2.2 Tax Penalties and Fines

The study also sought to establish the effect of tax penalties and fines on value added tax compliance among traders in Mandera Town. The study established that the majority of the traders perceived tax penalties and fines to be a key factor that affected their VAT compliance levels. The study found that in deed, the traders on average paid their taxes because they considered the amounts of penalties and fines imposed as very high and also

found the tax rates set to be high and hence, the interest accrued when they failed to comply. The study also discovered that the traders on average paid VAT taxes out of the fear of being detected and believed that KRA was seriously enforcing the set penalties and fines. As a result, the traders on average considered the costs of not paying their taxes very. The study observed that generally, the traders in Mandera Town were well aware of the costs related to tax penalties and fines imposed by the government on tax cheats and that they feared being punished for not complying with set tax laws. Based on the regression analysis, the study noted that the VAT compliance levels among the traders were positively and significantly affected by the imposition of tax penalties and fines. These findings underscored the deterrence role of penalties and fines.

5.2.3 Non-Compliance Opportunities

The study also assessed the effect of non-compliance opportunities on value added tax compliance among traders in Mandera Town. The study found that a majority of the traders viewed non-compliance opportunities as a significant determinant of VAT compliance among them. According to the study, the tax compliance choices among the traders were based on perception. The traders on average recognized that the chances of being caught by KRA in case they failed to declare actual incomes that they received were high and the tax agency had the capacity to scrutinize any unlawful actions particularly tax evasion and fraud. The study also established that even though the traders believed that it was not easy to manipulate their VAT returns without detection, they still believed that on average, there were many opportunities for not paying value added taxes. The study further established that non-compliance opportunities had a negative significant effect on VAT compliance among the traders.

5.2.4 Enforcement

The study further examined the effect of enforcement on value added tax compliance among traders in Mandera Town. Majority of the traders were of the view that enforcement affected their VAT compliance levels. The study found that on average, the traders complied with their VAT obligations due to the probability of getting caught and the level of audit by KRA officers and KRA officers normally issued threats to those who do not pay taxes. The study noted that relationship between tax enforcement and VAT compliance among the traders was positive and significant an indication that tax enforcement had a positive significant effect on

VAT compliance levels among these traders.

5.3 Conclusions

The following conclusions were made based on the study findings; It was concluded that availability of value added tax information affects tax compliance among traders in Mandera Town. The study concluded that the traders are not adequately provided with simplified and tailor made information on tax matters by those responsible for making the information available which explains why most of them are not well conversant with tax laws. The study concluded that most of the traders in Mandera Town are ignorant of the VAT system due to failure by the tax authority to avail the necessary information to help them make informed choices.

The study concluded that the imposition of tax penalties and fines is a sure way of increasing VAT compliance levels among traders in Mandera Town. The study concluded that traders in this town fear the punishment imposed on non-compliance actions and are well aware of the costs related to tax penalties and fines which deters them from tax cheating.

The study concluded that non-compliance opportunities were a threat to VAT compliance among traders in Mandera Town. The study also concluded that traders in this town still believe there are many opportunities for not remitting their value added taxes even though the probability of being detected is high.

The study concluded that tax enforcement was a key tool in enhancing VAT compliance among traders in Mandera Town. The study concluded that enforcement measures towards value added compliance in the form of regular audits and constant threats by the tax authority were necessary in enhancing VAT compliance among the traders.

5.4 Recommendations

The study recommends that KRA should avail all necessary tax information to traders in Mandera Town using channels that are easily available to all traders. The study recommends that KRA should ensure that the tax information provided is made simpler and can be understood by each trader regardless of their education levels. The study also recommends that KRA should only provide information that specifically touches on the operations of the traders and there should be a one stop platform that allows them to access all relevant information in one site other than having many segments in order to reduce the cost of

accessing tax information. The study also recommends that KRA uses communication channels that allow the traders to access personalized information and be able to interact freely with the KRA officials in order to ensure effective information sharing.

The study recommends that KRA officials should strive to come up with ways of improving the design of tax penalties and fines systems to make them more efficient. The measures adopted should aim at enhancing the level of efficiency in imposing these penalties and fines so that compliance levels are enhanced while minimizing the costs incurred in imposing them. The study also recommends that awareness creation in regards to the amounts of penalties and fines should be carried out more regularly to keep the traders informed of the punishment accruing from non-compliance behaviour.

The study recommends that KRA officers should ensure that they conduct thorough and consistent surveillance and monitoring of the activities of the traders in order to identify the loopholes for noncompliance behaviour which ought to be sealed. The study recommends that KRA needs to invest in systems and capacity development for its teams in order to ensure that they have the capacity to adequately detect any tax leakages due to noncompliance and be able to hold those involved accountable. The study recommends the need for KRA to embark on integrity training both for the traders and the officials in order to minimize intentional noncompliance behaviour.

The study recommends that it is necessary for KRA to integrate various enforcement tools in reminding tax payers on the need to comply with tax laws. The study recommends for enhanced budgets towards enhancing the capacity of KRA officials to undertake efficient tax enforcement.

5.5 Areas for Further Study

As a result of the study findings and the limitations faced by the researcher the following studies are recommended: factors affecting value added tax compliance among small and medium sized enterprises in Nairobi town so that results can be compared. Further, the study recommends a study on the factors affecting value added tax compliance among large enterprises and the influence of an integrated tax collection system on compliance levels.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

SECTION A: PERSONAL DATA

- 1 Gender (tick)
Male Female
- 2 Age (tick)
Below 30 years
31 – 40 years
41 – 50 years
Over 50 years
- 3 What is your highest level of educational?
Secondary
Diploma
Degree
Masters
Others (specify)
- 4 In which sector is your business?
Manufacturing Trade
Services Others (specify)
- 5 What is the total amount of money you make at the end of the day from sales in Kshs.? (tick)
Less than 5,000

- 5,001– 10,000
- 10,001 – 15,000
- 15,001 – 20,000
- Above 20,000

SECTION B: THE FACTORS AFFECTING VAT COMPLIANCE AMONG SMES

Kindly give honest opinion on the following questions;

1. Availability of Tax Information

a) Do you think availability of tax information has an effect on value added tax compliance among traders? Yes () No ()

b) Specify the extent to which you agreed or disagreed with the outlined statements on the availability of value added tax information in relation to tax compliance among traders in this town. Use this scale 1-Strongly Disagree (SD), 2-Disagree, 3-Neither Agree or Disagree (N), 4-Agree, 5-Strongly Agree.

Statement	SD	D	N	A	SA
I am highly conversant with tax laws					
The tax information available to us is simplified.					
The tax information availed to us is strictly tailor-made for our businesses					
KRA tax officials regularly inform us on every changes in tax laws					
I get all tax information free of charge					

2. Tax Penalties and Fines

a) Do you think tax penalties and fines have an effect on value added tax compliance among traders? Yes () No ()

b) Specify the extent to which you agreed or disagreed with the outlined statements on the tax penalties and fines in relation to tax compliance among traders in this town.

Statement	SD	D	N	A	SA
I pay taxes because of the amount of fines and penalties imposed is very high					
I find the taxation rates set by the government to be too high					
I pay my value added taxes because I fear being detected					
There is serious enforcement of penalties and fines by KRA					
The costs of not remitting my taxes are very high					

3. Non-Compliance Opportunities

a) Do you think non-compliance opportunities have an effect on value added tax compliance among traders? Yes () No ()

b) Specify the extent to which you agreed or disagreed with the outlined statements on the non-compliance opportunities in relation to tax compliance among traders in this town.

Statement	SD	D	N	A	SA
I am tax compliant because of perception					
I am certain that the chances of being detected by the KRA for failing to declare the actual income that I receive are low.					
I am certain that KRA has inadequate capability to frequently scrutinize all the incomes reported to them so I have a chance of not reporting my actual income.					
I believe that there are many opportunities for not paying value added taxes.					
I believe that I can easily manipulate value added tax returns without detection.					

4. Enforcement

a) Do you think enforcement has an effect on value added tax compliance among traders?

Yes () No ()

b) Specify the extent to which you agreed or disagreed with the outlined statements on the enforcement in relation to tax compliance among traders in this town.

Statement	SD	D	N	A	SA
I am tax compliant because of the probability of getting caught					
I do not pay tax because of the benefit of tax evasion					
I am tax compliant because of the level of audit by KRA officers					
KRA officers threaten those who do not pay taxes					
KRA audits taxpayers on filing their returns					

5. Tax Compliance

a) Using the scale 1-5 as shown below please tick the extent you agree with the following statements on value added tax compliance in among traders.

Statement	SD	D	N	A	SA
I have registered as taxpayer for all the taxes I qualifies for.					
I pay taxes on time					
I make correct tax returns					
I regularly update my tax journals and ledgers					

Thank you for participating in this study

