

**TAXPAYERS COMPLIANCE BEHAVIOUR WITH TAX SYSTEM. A
SURVEY OF SMALL AND MEDIUM ENTERPRISES IN KERICHO
TOWN, KERICHO DISTRICT**

BY

**ROBERT KIPSIGEI KORIR
REG NO: D61/60602/2011**

**A Research Project Submitted in Partial Fulfilment of the
Requirements for the Award of Degree of Master of Business
Administration (finance),
University of Nairobi**

DECLARATION AND RECOMMENDATIONS

DECLARATION

I declare that this research proposal is my own work and has not been presented elsewhere for the purpose of academic award.

Signature: _____

Date: _____

Robert Kipsigei Korir

Reg. No: D61/60602/2011

RECOMMENDATION

This research proposal has been submitted for examination with my approval as University supervisors.

Signature: _____

Date: _____

Supervisor

Name...

Signature.....Date.....

ACKNOWLEDGEMENT

I take this opportunity to acknowledge the contribution of numerous people who in one way or another contributed greatly to my education at Nairobi University. First, I wish to express my sincere gratitude to my employer for allowing, encouraging and supporting staff career development. Being a public office, it has been a great challenge in harmonizing work duties and responsibilities and the heavy academic work. However, my employer has always been very considerate and tolerant during my entire academic course and accorded me immeasurable moral and material support that makes it possible.

In addition to my employer, I extend a special tribute to my research proposal supervisor Dr. Wanjare for his immense and tireless assistance, guidance, criticisms and thoughtful comments on my work. His personal commitment went along way in making this research proposal a success. I am also grateful for the efforts of all the staff members of the University, whose various courses have shaped my career paths and contributed greatly to my choice of this topic. The final product of this work would be of far poorer quality without the efforts of these individuals. It would be ungrateful of me if I do not acknowledge the contributions of my fellow students for their day to day encouragement. Last but not least, special thanks go to my family members for their support, moral encouragement and patience during the entire study period. May the almighty God bless all abundantly.

DEDICATION

To my dear wife and children, employer, work and college colleagues and friends for their support, care, encouragement and understanding during the entire study period.

ABSTRACT

Despite the increasing need to increase revenue collection and enforcement so as to provide public services, developing countries still face the challenges of low tax compliance and tax administration. Small and medium businesses are instrumental in the growth of the economy as they create jobs and help fight poverty. With the favourable investment environment in Kenya, small businesses have frog-leaped into medium enterprises and the sector has received a lot of attention in the recent past from many quarters due to the immense economic potential being associated with. The government recognized the potential lying within the small taxpayers awhile ago through the introduction of turnover tax in the Finance Act 2006 through the provision of the Income Tax Act, Cap 470. The sector have for long operated without formal structures.

However since the SME were brought to tax bracket, little documented and empirical studies exists on tax compliance behavior. This casts doubts on the ability of the government to actually increase revenue collection and improve tax enforcement efforts. The purpose of the study was to assess the factors that influence taxpayers' compliance behavior with tax system among small and medium business income earners in Kericho municipality, Kenya these factors tries to explain why taxpayers comply or fail to comply. The study adopted a survey research design. The target population include all the all the 550 small business income tax payers issued with Municipal Council of Kericho Trading License for the year 2011. A sample of 100 small business income tax payers selected and included in the study. Data was collected through administration of a questionnaire with both the small business income earners. The collected data were then processed and analyzed using descriptive and inferential statistics and presented in the form of propositions, tables and percentages with the aid of Statistical Package for Social Sciences (SPSS) version 17.0 for windows. The study

provides information useful in understanding tax system compliance behavior and the administration. The following conclusions were also arrived at: First, the research shows that tax compliance at the most basic level (filing and remitting on time) is quite satisfactory, the taxpayer files tax returns on or before 30th June, a sign that they actually comply with the deadlines given by KRA, which they file themselves instead of doing it using the Accountant/ tax advisor, while the more significant levels of tax non-compliance, as measured by the proportion of taxpayers judged to be at “substantive risk of non-compliance”, shows more problems. Most taxpayers view the Kenyan tax system as unfair. This was because most respondents differed that they are paying a fair share of tax; that their neighbours, friends etc are reporting and paying tax honestly; that tax laws are easy to understand i.e. calculation of tax filing and paying dates. They were also indifferent with the paying of tax fines and penalties: the aggressive tax enforcement efforts by KRA e.g. ensuring tax audits and prosecutions of tax evaders take place.. If taxpayers care only about incentives and are “playing the audit lottery”, increasing penalty and audit rates should improve compliance. But if psychological factors (including moral and ethical concerns) are important, improved compliance might instead be achieved by strategies that change taxpayers’ attitudes towards the tax system such as increasing its perceived fairness and making it easier to comply with the tax laws.

This study contributes to the compliance literature by studying the appropriate measure of tax compliance to use in research aimed at determining those changes in tax laws which would encourage higher levels of compliance. Secondly, most taxpayers have complied with the possession of PINs, and most of them have never paid penalties; the taxpayers in the district have partially complied in terms of keeping up to date records and books of accounts, records like the trial balance; Journals and Ledgers are

not up to date. Thirdly, It was found that there is a very strong relationship between the taxpayers' attitudes and tax compliance in Kericho town i.e. taxpayers' attitudes encourages tax compliance in Kericho town , during the hypothesis testing that "Taxpayers' attitudes do not encourage tax compliance in Kenya", chi-square, It was found that there was a very strong relationship between the taxpayers' attitudes and tax compliance in Kenya since it had a correlation of 0.846 and all the factors that influence the taxpayers' attitudes, equally affect the taxpayers' compliance with the tax requirement i.e. taxpayers' attitudes encourages tax compliance in Kenya .

. Lastly, some of the factors for tax non-compliance were found to be: the inability to understand tax laws, a feeling that they are not paying a fair share of tax, positive peer attitude and Rewarding

TABLE OF CONTENTS

DECLARATION AND RECOMMENDATION.....	i
ACKNOWLEDGEMENT.....	ii
DEDICATION.....	iii
ABSTRACT.....	iv
TABLE OF CONTENTS.....	vii
LIST OF TABLES.....	ix
LIST OF FIGURES.....	x
LIST OF ACRONYMS AND ABBREVIATIONS.....	xi
CHAPTER	
ONE.....	Error!
Bookmark not defined.	
INTRODUCTION.....	Er
ror! Bookmark not defined.	
1.1 Background of the Study.....	1
1.1.2 Turnover tax and compliance.....	3
1.1.3 SME and TOT.....	3
1.1.4. The concept of tax compliance behavior and taxpayers attitude.....	5
1.1.5. Theoretical framework.....	6
1.2.1 Statement of the Problem.....	7
1.2.2 Reseach questions.....	8
1.3.0 Research Objective.....	9
1.4 justification and Significance of the Study.....	9
1.5. Scope of the study.....	10
1.6. Delimitation of the study.....	10
CHAPTER TWO.....	12
LITERATURE REVIEW.....	12
2.1 Introduction.....	12
2.2 Taxation.....	12
2.2 Taxation in Kenya.....	13
2.3.0 The Concept of Tax- Compliance Behaviour and Taxpayers' Attitudes.....	15
2.3.1 Tax Compliance in Kenya.....	16
2.3.2 Why people comply.....	18
2.3.3. Factors that influence taxpayers' compliance behaviour.....	18
2.4 Turnover Tax (TOT) in Kenya.....	21
2.5. Conceptual framework.....	22
2.6 Summary and Gaps in Literature.....	23
2.7 Theoretical Framework.....	24
2.8 challenges and strategies to mitigate them.....	25

CHAPTER THREE.....	26
RESEARCH METHODOLOGY.....	26
3.0 Introduction.....	26
3.1 Research Design.....	26
3.2 Target Population of the Study.....	27
3.3 Sampling Procedure and Sample Size.....	27
3.4 Data Collection Instruments and Procedures.....	27
3.5 Validity of the Research Instrument.....	28
3.6 Reliability of the Research Instrument.....	28
3.7 Data Analysis and Presentation.....	29
CHAPTER FOUR.....	31
DATA ANALYSIS, RESULTS AND DISCUSSION.....	31
4.1. Introduction.....	31
4.2. Demographic Characteristics of the Respondents.....	32
4.3 Attitude of Taxpayers towards Turnover Tax System in Kenya.....	33
4.4 Tax Compliance and Tax Non-Compliance Status with Tax system.....	35
4.5 Relationship between the Taxpayers' Attitudes and Tax Compliance.....	37
CHAPTER FIVE.....	40
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	40
5.0 Introduction.....	40
5.1 Summary of the Findings.....	40
5.2 Conclusions.....	42
5.3 Recommendations and suggestion for Further Research Studies.....	43
REFERENCE.....	45
APENDIX I: INTRODUCTION LETTER.....	48
APPENDIX I: TURNOVER TAX PAXPAYER QUESTIONNAIR.....	49

LIST OF TABLES

Table 1: Summary of Data Analysis.....	30
2. Factors influencing ones view on business tax system.....	34
3. Correlation of taxpayers attitude and tax compliance.....	37
4. Means perceived importance of concept and sub concept in explaining compliance.....	39

LIST OF FIGURES

Figure 1: Turnover tax system administration and compliance	23
---	----

LIST OF ACRONYMS AND ABBREVIATIONS

ETR:	Electronic Tax Register
G.D.P.:	Gross Domestic Product
G.O.K:	Government of Kenya
I.C.C.:	International Chamber of Commerce
KIPPRA:	Kenya Institute of Public Policy Research and Analysis
K.R.A.:	Kenya Revenue Authority
S.M.E.:	Small and Medium Enterprises
TOT:	Turnover Tax
V.A.T.:	Value Added Tax

CHAPTER ONE

INTRODUCTION

1.0. This chapter is introducing the tax compliance behavior among Small and Medium Enterprises in Kericho Town, Kericho District. It gives the background information of the study, the problem statement, objectives of the study, and justification of the study.

1.1. Background of the Study

All governments are charged with the responsibility of providing essential services to their citizenry including security, education, health and physical infrastructure like roads among other functions (Wawire, 2000). According to the commission on taxation of the International Chamber of Commerce (ICC), this requires access to and collection of sufficient and sustainable revenue to meet these goals and obligation. A sustainable revenue base enables a country's to withstand external and domestic shocks, and to provide the needed services necessary for sustained economic development. Most governments raise much of their revenue from taxation.

However, most of these governments are faced with the challenge of tax compliance and high cost of tax administration. Low tax compliance is a matter of serious concern, especially in many developing countries (Cobham, 2005). This has limited the capacity of the governments to raise revenues for developmental purposes leading to budget deficits/shortfalls. Individuals do not like paying taxes and they take a variety of actions to reduce their tax liabilities. In general, taxation is the act of levying the tax. Several factors contribute to this weakness including corruption, a large informal sector, weak legal systems, ambiguity in tax laws, high marginal tax rates, paucity of adequate information and accounting systems, a culture of noncompliance and ineffective tax administration. There is empirical evidence on the hostility between the taxpayers and

tax collectors on issue relating to tax compliance and outward resistance from taxpayers which dates back to the history of taxation. Hostile taxpayers' behavior implies that given a chance taxpayers would not comply with tax laws (Singh, 2003; Director, Tax world Organization, April 7, 1999). The general poor attitude towards tax system, low tax compliance and high cost of tax administration has evoked great attention among many Revenue Authorities in developed countries.

In Kenya, between 1995 and 2004, tax revenue constituted 80.4% of total government revenue. Given its central role, taxation has been applied to meet two objectives: raise sufficient revenue to fund public spending without recourse to excessive public sector borrowing. However, Kenya is ranked among countries with the low tax compliance as a result of inefficient and ineffective tax administration (KRA, 2004). Tax evasion remains high, with a tax gap of about 35% and 33.1% in 2000/1 and 2001/2, respectively (KIPPRA, 2004). Empirical evidence on the ground shows there has been hostility between the taxpayers and tax collectors on issue relating to tax compliance.

In Kenya, administration of tax is done by Kenya Revenue Authority (KRA) established through an Act of Parliament on July 1st 1995 (Cap 469). KRA is mandated to collect and administer all taxes and revenue on behalf of government and to diversify the sources of tax and widen the tax base. To achieve this purpose, KRA is divided into regions such as North Region, Rift Valley Region, Western Region, Southern Region and Central Region and has the following departments: Customs Services Department, Domestic Services Department, Road Transport Department and Support Services Department. It administers different types of taxes under different Laws (Acts) such as Income Tax, Value Added Tax, Custom duties and Excise Tax among many others (KIPPRA, 2004).

1.1.2 Turnover tax and compliance

In relation to tax administration, substantial contribution to the growth of the economy, the informal sector remains highly susceptible to tax evasion. To address the unique characteristics of this sector, the government introduced a Turnover Tax (TOT) using the Finance Act 2007 through the provision of the Income Tax Act which became operational and effective from 1st January 2008. For income tax purposes, TOT is a final and presumptive tax where the tax base is turnover sales applicable to any resident person whose annual turnover from business does not exceed KShs 5 million and is not below Kshs 500,000 during any year of income. KRA administers different types of taxes under different Laws (Acts) such as Income Tax, Value Added Tax, Custom duties and Excise Tax among many others. Hence, KRA is supposed to ensure taxpayers comply with the respective tax laws. The TOT is expected to reduce tax administration cost by simplifying the tax procedure, computation and record keeping; making returns filing easier; and reducing cost of compliance (KRA, 2010).

1.1.3 SME and TOT

Small businesses are instrumental in the growth of the economy as they create jobs and help fight poverty. With the favourable investment environment in Kenya, small businesses have frog-leaped into medium enterprises. The SME sector has received a lot of attention in the recent past from many quarters due to the immense economic potential being associated with it. Kenya Revenue Authority (KRA) and financial institutions have been the major beneficiaries. The government recognized the potential lying within the small taxpayers awhile ago through the introduction of turnover tax in the Finance Act 2006. KRA established a department to separately handle the tax affairs of medium enterprises commonly referred to as "Medium Taxpayers Office". The turnover tax was

targeted at the small and medium-size firms which have for long operated without formal structures.

In Kenya, initially, attempts had been made to bring the Small and Medium Enterprise (SMEs) sector into the tax bracket and reduce the informality by simplifying the tax system. This culminated to the introduction of TOT by the Finance Act 2007 through the provision of the Income Tax Act, Cap 470. The TOT became operational in January 2008. For TOT purposes, "Business" includes any trade, profession or vocation, and every manufacture, adventure and concern in the nature of trade.

According to the Domestic Tax Department of KRA, Turnover Tax (TOT) is a form of presumptive tax where the tax base is turnover sales. It is based on the fact that annual revenue turnover is the best measure of the size of an organization. It is an indirect tax that is applicable to any resident person whose annual turnover from business does not exceed KShs. 5 million and is not below Kshs 500,000 during any year of income. Thus, small business taxpayers who do not qualify for VAT pay the turnover tax. The TOT is aimed at bringing businesses in the informal sector into the tax bracket. These include small scale manufacturing firms and Jua Kali businesses, agricultural enterprises, landlords and transport industries. The TOT rate is 3 percent of the gross turnover payable quarterly commencing January of each year. Businesses that make losses are exempt from turnover tax. However, it should be noted that TOT does not apply to rental income, management or professional fees or training fees, income subject to withholding tax as a final tax and income of incorporated companies (KRA, 2010).

The informal sector is large and growing. The first National Baseline Survey of 1993 identified 910,000 micro and small enterprises (excluding agro-based activity) employing about 2.0 million people. The second National Baseline Survey of 1999 identified 1.3 million enterprises with about 2.4 million people involved. The rapid

growth of the informal sector and the accompanying growth of this shadow economy have posed challenges to the tax administration. This sector accounts for about 34% of the Gross Domestic Product (GDP) and employs as much as 75% of labour (KRA, 2010).

1.1.4. The Concept of Tax- Compliance Behavior

Tax compliance behavior refers to the extent at which the taxpayers (SME) adherence to the tax policies, the problems encountered by them as they go through their business and the reasons why they comply or fail to comply with the policies.

Tax compliance is a complex term to define. it is multi-faceted measure and theoretically, it can be defined by considering three distinct types of compliance such as payment compliance, filing compliance, and reporting compliance(Brown and Mazur 2003),. These compliance can also be divided into administrative compliance (reporting compliance, procedural compliance or regulatory) and technical compliance which refer to complying with technical requirements of the tax laws in calculating taxes or provisions of the tax laws in paying the share of the tax. Theoretically, views of the taxpayers and tax collectors are that tax compliance means adhering to the tax laws, which are different from one country to another.

Although there had been reported progress in tax collections in the country, there are still problems with regards to compliance. Some taxpayers are shown to be finding ways to avoid paying amount levied on them. Based on the information gathered, not everybody is required to pay tax unless otherwise meets the income minimum requirement. It has never been easy to persuade all tax payers to comply with the requirements of a tax system. The introduction of self-assessment and electronic tax register has raised Tax compliance and made it a more significant aspect of tax system.

The current study seeks to evaluate the taxpayers' attitude and tax compliance with turnover tax system in Kericho Town, Kericho District. The study will examine the extent to which taxpayers' attitude affects or influence the tax compliance with tax system and establish the possible interactions that could be employed in order to enhance effectiveness in tax compliance by SME.

1.1.5 Theoretical Framework

In explaining taxpayers' compliance behaviour, that is, the reasons why taxpayers comply and do not comply, there are broadly two classes of theories – economic based theories, which emphasize incentives, and psychology-based theories which emphasize attitude (Trivedi & Shehata, 2005). Economic theories of tax compliance are also referred to as deterrence theory. According to Trivedi and Shehata (2005), economic theories suggest that taxpayers “play the audit lottery,” i.e. they make calculations of the economic consequences of different compliant alternative, such as whether or not to evade tax; the probability of detection and consequences thereof, and choose the alternative which maximizes their expected after tax return/ profit (possibly after adjustment for the desired level of risk). The theories suggest that taxpayers are amoral utility maximizers hence; economic theories emphasize increased audits and penalties as a solution to compliance problems. Economic based studies suggest that taxpayers' behaviour is influenced by economic motives such as profit maximization and probability of detection (Trivedi & Shehata, 2005), underreporting (Erard & Ho, 2002; Cobham, 2005), business income taxpayers operating in informal economy (Etchberry, 1992) among many factors.

Psychology theories of tax compliance assume that psychological factors – including moral and ethical concerns are also important to taxpayers and so taxpayers may comply even where the risk of audit is low. Psychology theories de-emphasize audits and penalties and instead focus on changing individual attitudes towards tax system. Trivedi and Shehata (2005) concluded that some taxpayers' behaviour may follow economic theories while others may follow the psychological theories and a mixture of the two is also possible.

1.2.1 Statement of the Problem

Despite the increasing need to increase revenue collection through taxation so as to provide public services, developing countries still face the challenges of low tax compliance and tax administration. Some countries like Kenya have sought to address this by widening the tax base to include the informal sector through the introduction of a turnover tax to cater for the small business enterprises. Tax compliance, according to Cobham (2005), is a problem to many countries as measured by tax to GDP ratio although it has been improving for many countries. The goal of tax administration is to foster voluntary tax compliance (Silvani, 1992) and hence reduce tax gap (difference between taxes paid and owed for all taxes and all taxpayers) and “compliance gap.” Kenya is ranked among countries with the low tax compliance as a result of inefficient and ineffective tax administration (KRA, 2004). KRA has to contend with the problem of low filing compliance, which stood at 29% in 2000 integrating the processes of registration and filing has been a big challenge. Tax evasion remains high, with a tax gap of about 35% and 33.1% in 2000/1 and 2001/2, respectively (KIPPRA, 2004). Empirical evidence on the ground shows there has been hostility between the taxpayers and tax collectors on issue relating to tax compliance. These views may be explained by

Psychology-based theories which reveal that taxpayers' tax compliance may be influenced by factors which eventually influence taxpayer's behavior i.e taxpayers' understanding of a tax system / tax laws (Silvani, 1992; Le Baube, 1992); Since the implementation of the turnover tax in 2008, taxpayers (SME) in Kenya and by extension Kericho Town, there exist varying levels of tax compliance, there is little documented and empirical studies on attitudes and tax compliance behavior, This casts doubts on the ability of the government to actually increase revenue collection and improve tax enforcement efforts. Apart from unpublished study by Simiyu (2003) whose objective was to identify factors influencing taxpayers' voluntary compliance among local authorities, the researcher was not aware of any other study that has been carried out to establish how taxpayers' attitudes influence tax compliance behavior in Kenya,

. The challenge of lack of knowledge on Tax Compliance towards a tax system is serious on the grounds in Kenya which has hinders the achievements of targets per KRA.

Therefore, addressing this knowledge gap is the primary purpose of this study. It was for this reason that this study attempted to find out factors that influence tax compliance behavior in Kenya and especially Kericho town.

1.2.2 Research Questions

The motivation of this study will seek to answer the question

1. How the taxpayer's attitudes influence taxpayers' compliance behavior with tax system among small and medium business income earners in Kericho town, Kenya.
2. What is the level of Tax compliance among SME business income earners in Kericho town?
3. What are the problems encountered by SME in Kericho town in relation to tax payment and compliance?

1.3. Research objective

- (i) To determine the level of tax compliance among SMEs business income earners in Kericho town, Kericho East district?
- (ii) To establish whether the taxpayers' attitude influenced tax compliance behavior among SMEs business income earners in Kericho town, Kericho East district
- (iii) To identify the administrative challenges facing SME business income earners in complying with tax system in Kericho town.

1.4 .Justification and significance of the Study

In order to increase revenue collection and meet budgetary requirements in developing countries like Kenya, there is need for empirical studies on the influence of taxpayers' attitude on tax compliance with tax system among SMEs. The study is premised on the fact that understanding the taxpayers' towards tax compliance behavior is critical in increasing the tax revenue and enforcement. The study will help in providing information that could be useful to the government, KRA (the tax collector), SMEs and the general public in understanding tax payers' compliance behavior and administration. Based on the findings, the tax collector (KRA) will institute measures, policies and strategies to improve compliance and enhance revenue collection at minimum cost from small and medium tax payers. An effective tax system will benefit the government through increased revenue and therefore provide quality public services to both the general public and the small and medium business community itself. The government can use the findings for monitoring and evaluation of the effectiveness of the system and will also enable the taxpayers to know their responsibilities and their rights as taxpayer.

. The study will also contribute to the existing and new knowledge in this new field of tax compliance behavior in Kenya. Furthermore, it will provide researchers with baseline information that could be useful in future studies in this new field.

1.5 Scope of the Study

This study focused on assessing the factors that influence taxpayers' tax compliance behavior with tax system among small and medium business income earners in Kericho town, Kenya. The study was conducted in Kericho town in Kericho District. Kericho town is one of the fastest growing towns in the region with a significant burgeoning informal sector especially in the agricultural and jua kali sectors. As a result, the town provided adequate and sufficient case study for assessment of the taxpayers' compliance behaviours towards tax system. The study targeted small business income earners currently paying tax in Kericho town. A representative sample of these small businesses was selected for the study. The study was conducted during the months of September and October, 2012.

1.6 Delimitations of the Study

The study was likely to encounter a number of limitations which could impede answering the research questions and achieving the objectives. These include:

- i) Sample size and generalization of the findings: The main limitation was the sample size and extent of generalization of the research findings. All small business income earners in the informal sector in the country were required comply with tax since January 2008. Therefore, adequate and more generalizable assessment of the administration and compliance with tax system required a consideration of as many small businesses from the entire country as possible. However, due to time, manpower and financial resource

constraints, it was not possible to cover many areas and businesses in the country. This meant that only a survey study was viable, tenable and possible. Thus, small businesses in Kericho town of Kericho district which were only a fraction of all small businesses in the country were involved in the study. This may have limited the extent of generalization of the findings to all small businesses in other areas and the entire country. However, the findings of the study are confined to the selected small business income earners in Kericho town and would be cautiously generalized to other businesses elsewhere and in the entire country.

ii) Authentication of information provided: The recent government efforts to ensure compliance with equity in taxation in the country might have made some respondents, apprehensive of the intentions of the study. Therefore, some were more likely to conceal the true information about their business and level of compliance. This could compromise the validity of the information provided and the findings. However, the researcher adequately briefed the targeted respondents about the intentions of the study and how the findings would be used. The respondents were also assured of confidentiality of the information provided.

CHAPTER TWO

LITERATURE REVIEW

2.0. Introduction

This chapter presents a review of the literature on taxation and tax compliance behavior among taxpayers. The review is divided into sections with each covering different aspects of the study. The review discusses taxation and taxation in Kenya, tax compliance behavior in Kenya. It also provides theoretical and conceptual frameworks to be used in guiding the study.

2.1. Taxation

Taxation is used as the main policy instrument for transferring resources to the public sector. It has been argued by multilateral institutions, among others, that the tax system should be used only to raise finances that are sufficient for meeting the minimum necessary level of public expenditure, ie security, infrastructure development, defenses and to regulate undesirable activities. However, taxes impose on society carries types of cost:

- i) A direct cost or revenue foregone, as taxes, as taxpayers reduce their disposable income by paying the amount due;
- ii) An indirect a locative effect, or excess burden, which is the welfare cost associated with the economic distortions induced by taxes as they alter relative prices of goods, services and assets; and
- iii) An administrative/compliance cost, since tax forms, tax control, payment procedures and tax inspection are costly.

Not all tax systems have the same distortionary effect. For a given amount of tax revenue, the final burden of taxation depends on a number of features of the tax system, namely, the composition of tax revenues (income versus consumption), the size of the tax base (affected by tax evasion and tax fraud), the tax rates and other factors of

administrative nature. Available evidence for developing countries indicates that corporate and personal income taxes have a negative impact on economic activity, whereas taxes on imports and exports do have a significant, negative effect on investment. On the other hand, non-neutralities in the taxation of savings and investment severely distort capital markets. These distortions become even worse when tax evasion is widespread and the informal sector is large.

2.2 .Taxation in Kenya

In Kenya, taxation is the single largest source of government budgetary resources. Between 1995 and 2004, tax revenue constituted 80.4% of total government revenue (including grants). Relatively, the importance of non-tax revenue is also significant in sustaining the public budget, although its importance is much less than the role of taxation given that it's share over the same period was 15.1%. Foreign grants play a minimal role as they have averaged only 4.5%. Given its central role, taxation has been applied to meet two objectives. First, taxation is used to raise sufficient revenue to fund public spending without recourse to excessive public sector borrowing. Second, it is used to mobilize revenue in ways that are equitable and that minimize its disincentive effects on economic activities, this effectively means that the more income you earn the greater your contribution is expected to be to the state, thirdly taxation is used to regulate consumption and may even be used to curtail various forms of business activities. i.e. alcoholic beverages and tobacco may be taxed heavily on the grounds that their use is hazardous to the health of individuals, and fourthly they are used to promote goals such as full employment, satisfactory rates of economic growth, and stability of the Money supply .

In designing tax systems, governments customarily consider three basic indicators of taxpayer wealth or ability to pay: what people own, what they spend, and what they earn.

In order for a tax system to operate effectively, certain principles must be put in place. These principles include 1. Fairness: the citizens' should be taxed in proportion to their abilities to pay. 2. Clarity and 3. Certainty: here the application of a tax should be clear and certain. If the application is uncertain and arbitrary the public can have no confidence in the system. 4. Convenience: Compliance with tax laws may increase if it is easy and convenient

The tax system In Kenya has mainly concentrated on taxing individual income (Personal Income Tax-PIT), profits (Corporate Income Tax-CIT) and goods and services (VAT, excise duties). Income tax has been designed to target corporate profits (Corporate Income Tax - CIT) and employment (personal income tax, PIT, and Pay As You Earn, PAYE). Income tax is charged directly on business income, employment income, rent income, pension earnings, investment income (dividends, royalties), and commission. Income from self-employment is subject to the PIT while employment income is subject to PAYE. The PIT and PAYE are charged at the same graduated scale while CIT is charged on profits on limited liability companies. A good tax administration system should identify all those required to pay taxes and issue unique identification numbers that are fed into a master file upon which updates are made and from which retrievals can be made. KRA has made some progress in this area by increasing the number of VAT taxpayers in its registry from 17,106 in 1997 to 26,591 in 2000 (an increase of 55%) (Talienco, 2004). According to KRA (2006), a total of 33,923 taxpayers and 33,141 taxpayers were recruited in 2003/04 and 2004/05, respectively. In 2005/06, a total of 40,537 taxpayers were recruited.

2.3.0. The Concept of Tax- Compliance Behaviour

Tax compliance is a complex term to define. According to Brown and Mazur (2003), tax compliance is multi-faceted measure and theoretically, it can be defined by

considering three distinct types of compliance such as payment compliance, filing compliance, and reporting compliance. Organization for Economic Co-operation. Organization for Economic Co-operation Development (2001) advocate dividing this compliance into categories, administrative compliance and technical compliance where the former refers to complying with administrative rules of lodging and paying otherwise referred to as reporting compliance, procedural compliance or regulatory compliance and the latter refer to complying with technical requirements of the tax laws in calculating taxes.

Theoretically, views of the taxpayers and tax collectors are that tax compliance means adhering to the tax laws, which are different from one country to another. Tax non-compliance occurs when there is no timely submission by taxpayers of all required tax returns, non reporting of accurately tax liability in accordance with the tax laws, late payment of the tax due, an understatement of income, and overstatement of expenses (Singh, 2003). The goal of tax administration is to foster voluntary tax compliance (Silvani, 1992) and hence reduce tax gap (difference between taxes paid and owed for all taxes and all taxpayers) and “compliance gap.” Tax compliance, according to Cobham (2005), is a problem to many countries as measured by tax to GDP ratio although it has been improving for many countries. For example, its one-third of GDP in rich countries; Latin America and the Caribbean - 17% of GDP and low-income countries (in Sub Saharan Africa) showed less than 15% to GDP (the recommended rate). It remains a big challenge to low income countries. This has promoted radical tax reforms in countries like Bolivia, Uruguay, Colombia, Jamaica and Spain with notable success (Bird & De Jantscher, 1992).

According to Ajzen’s (1991) Theory of Planned Behaviour, attitude relates to one’s own personal views about behaviour. Attitude may also be defined as positive or

negative views of an “attitude object”; i.e. a person, behaviour or event. In relation to taxation, taxpayers’ attitudes may be defined as positive or negative views of tax compliance behaviour. The outcome of positive views is tax compliance and negative views are tax non-compliance. These views may be explained by Psychology-based theories which reveal that taxpayers’ attitude may be influenced by the following factors which eventually influence taxpayers’ behavior.

Taxpayers’ perceptions of the tax system and Revenue Authority (Ambrecht, 1998); peer attitude / subject norm; taxpayers’ understanding of a tax system / tax laws (Silvani, 1992; Le Baube, 1992); motivation such as rewards (Feld, Frey & Torgler, 2006) and punishment such as penalties (Allingham & Sandmo, 1972); cost of compliance (Slemrod, 1992; Le Baube, 1992); enforcement efforts such as audit; probability of detection (Allingham & Sandmo); difference across - culture; perceived behavioral control (Trivedi & Shehata) and Protestant Work Ethics (PWE) (Furnharn, 1983); ethics / morality of the taxpayer (Trivedi & Shehata) and tax collector; equity of the tax systems (Trivedi & Shehata); image of the government based on whether it is achieving the tax objectives under prescribed principles of taxation; demographic factors such as sex, age, education and size of income (Jackson & Milliron, 1986; Murphy, 2004) and use of informants (Le Baube, 1992).

2.3.1. Tax Compliance in Kenya

The tax compliance requirements according to the income tax laws relating to businesses are: Keeping of up to date books of account by businessmen, acquiring of Personal Identification Numbers (PIN) by all potential taxpayers, determining the taxable income according to the stipulated rules and regulation, accurate determination of tax liability, filing of returns on income by the prescribed date, paying of tax dues by the prescribed date, payment of fines and penalties for overdue taxes and allowing of audit

by tax collectors if deemed necessary. This is so as to promote compliance and improve efficiency in tax collection and administration (CIAT, 2006).

Kenya Revenue Authority was established through an Act of Parliament on July 1st 1995 (Cap 469) and is charged with administration of all revenues ,it is supposed to promote compliance, ensure responsible enforcement of tax laws by highly motivated and professional staff thereby maximizing revenue collection at least possible cost for the social-economic well being of Kenyans” (CIAT, 2006).

KRA is also mandated to diversify the sources of tax and widen the tax base. To achieve this purpose, KRA is divided into regions such as North Region, Rift Valley Region, Western Region, Southern Region and Central Region. It has the following departments: Customs Services Department, Domestic Services Department, Road Transport Department and Support Services Department. It administers different types of taxes under different Laws (Acts) such as Income Tax, Value Added Tax, Custom duties and Excise Tax among many others (KIPPRA, 2004).

Kenya is ranked among low-income countries or low compliance countries with hard task of ensuring efficient and effective tax administration. Kohlberg’s stage theory states that individuals make moral judgments based on a concept of justice which develops as individuals mature. (Kohlberg 1969). Kohlberg identifies three levels of moral development (pre-conventional, conventional, and post conventional), with each level including two distinct stages of moral reasoning.

In the pre-conventional level, moral decisions are motivated by fear of punishment (stage 1) or from self-interest (stage 2). At the conventional level, moral decisions are influenced by the social group, so the individual acts to please or help others (stage 3) or to fulfill societal, legal, or religious norms, i.e., rule-based reasoning (stage 4).

Finally, at the post-conventional level individuals make ethical choices based on concepts of justice, such as individual rights and socially accepted standards, i.e., a social contract (stage 5) or from universal ethical principles as defined by the decision-makers conscience (stage 6). Thus, the moral reasoning stages involve how one perceives the justice of self vs. others relationship.

2.3.2. Why do people comply?

For the taxpayers to comply or not to comply is influenced by many factors as explained by the economic and psychological theories. Literature has been that individuals will comply with rules and regulations only when confronted with harsh sanctions and penalties, and those who believe that gentle persuasion and cooperation works in securing compliance.

Individuals are rational actors who behave in a manner that will maximize their expected utility i.e individuals assess opportunities and risks and disobey the law when the anticipated fine and probability of being caught are small in Relation to the profits to be made through non-compliance. (Murphy, 2008, 114)

2.3.3. Factors that influence taxpayers' compliance behavior

Tax compliance behavior is a factor of many variables. Compliance with laws and regulations (e.g. Van Oosterhout, 2009). General knowledge about human behaviour and principles of persuasion can be extremely helpful to increase the effectiveness of communication and treatments (e.g. Cialdini, 2009). Personal ethical norms can drive tax compliance, with deterrence playing a role when obligation and social pressure fails. Moral obligation and anticipated feelings of shame and guilt have emerged as significant factors in explaining compliance and are regarded as among the most consistent

predictors in the literature (Braithwaite 2009). The factors behind taxpayer compliance behavior are categorized into five main categories:

(i) Fairness and trust:

Fairness and trust are important factor for compliance. Mutual trust and cooperation between the taxpayers and their tax authority enhance the achievement of voluntary compliance (Braithwaite, 2008).

If regulators are seen to be acting fairly, people will trust the motives of that authority, and will defer to their decisions voluntarily hence helps increase the perception of fairness. The perception of fairness depends on how the taxpayers perceive the authority's actions.

(ii).Deterrence and norms

Deterrence is based on the concept that the risk of detection and punishment will improve compliance behavior. Under this approach taxpayers pay their taxes out of fear that the government will catch and penalize them (Lavoie 2008). This reduces tax evasion but the concept also includes the idea that the punishment of an evader will discourage future evasion. Taylor (2001) points out that there is a connection between risk of detection, formal sanctions and compliance. Valerie Braithwaite (2009) has described deterrence as a double edged sword because it can strengthen the moral obligation to pay tax by pointing out what is the right thing to do but can have a positive or negative effect on compliance.

Research has shown that the effect of fines on tax compliance is usually also very small or negligible (Braithwaite 2008).

When personal norms are strong, compliance are strong, deterrence will have weak effect on compliance. Taxpayers then comply because they think it is the right thing to do, not because they are afraid of punishment. But when personal norms are weak,

deterrence becomes more important (Wenzel 2004). If the taxpayer is not affected by a moral obligation to pay tax then the threat of punishment can have a positive impact on behavior.

When social norms are strong, compliance are weak, deterrence will have weak effect on compliance, but when social norms are strong, deterrence will have a greater impact on behavior (Wenzel 2004).

(iii). Demographic Factors

. Studies have found these major demographic factors correlate with tax compliance behavior, demographic such as age, gender, and religiosity, or a combination of these useful in devising compliance tactics because one population may be a detriment to another.

(a).Gender:

Although some of the study results are mixed, in general the evidence suggests that women are more compliant than men, respond better to positive appeals, whereas men respond better to negative ones .women are perceives to be more risk averse where men are perceived as risk takers.

(b).Age:

Older individuals are generally more compliant than younger ones. This could be due to a variety of factors such as older individuals have more social capital, have more at risk, and have more knowledge of tax.

(c).Education:

Studies has proves that education correlate with compliance because the internalization of social norms occurs through a process of socialization which influences

Education may also correlate with compliance because higher moral reasoning positively correlates and higher moral reasoning can be taught.

(d).Religion:

A study of the correlation between tax compliance and religion in more than 30 countries, found a positive correlation for all the main religions but found different correlations with different religions. Torgler found that those with a strong Protestant work ethic were more likely to oppose taxation. The correlation may exist because religion acts as a supernatural police or because it is a proxy for such traits as work ethic and trust.

2.4. Turnover Tax (TOT) in Kenya

Attempts to bring the Small and Medium Enterprise (SMEs) sector into the tax bracket and reduce the informality by simplifying the tax system culminated to the introduction of TOT by the Finance Act 2007 through the provision of the Income Tax Act, Cap 470. The TOT became operational in January 2008

According to the Domestic Tax Department of KRA, Turnover Tax (TOT) is a form of presumptive tax where the tax base is turnover sales. It is based on the fact that annual revenue turnover is the best measure of the size of an organization. It is an indirect tax that is applicable to any resident person whose annual turnover from business does not exceed KShs. 5 million and is not below Kshs 500,000 during any year of income. However, it should be noted that TOT does not apply to rental income, management or professional fees or training fees, income subject to withholding tax as a final tax and income of incorporated companies (KRA, 2010).

2.5 Conceptual Framework

The study conceptualized that the level of attitude of the taxpayers towards TOT tax system (independent variable) had a direct and positive influence on the tax compliance (dependent variable). The more positive the attitude of the taxpayers towards the TOT tax system, the more the tax compliance behaviour; while more negative the attitude of the taxpayers towards the TOT tax system, the less the tax compliance behaviour. In other words, the outcome of positive views was tax compliance and negative views were tax non-compliance. But the extent to which the attitude towards tax system influenced the level of tax compliance depended on a number of intervening variables. These intervening variables either facilitated or reversed the expected relationship between the independent and dependent variables. These intervening variables included taxpayer awareness, peer attitude, taxpayers' understanding of a tax system, motivation such as rewards and punishment, cost of compliance, enforcement efforts such as audit; probability of detection, perceived behavioral control, ethics/ morality of the taxpayer and tax collector, equity of the tax systems, image of the government in achieving the tax objectives under prescribed principles of taxation. In addition, there were also demographic factors such as sex, age, education and size of income and use of informants. These intervening variables were controlled by being incorporated into the study and studied alongside the independent and dependent variables. This was done in order to isolate and assess their independent influence on the dependent variable in the study. Figure 1 illustrates the interaction between the independent variable and dependent variable with the influence of the intervening variables.

Independent variable

Intervening variables

Dependent variable

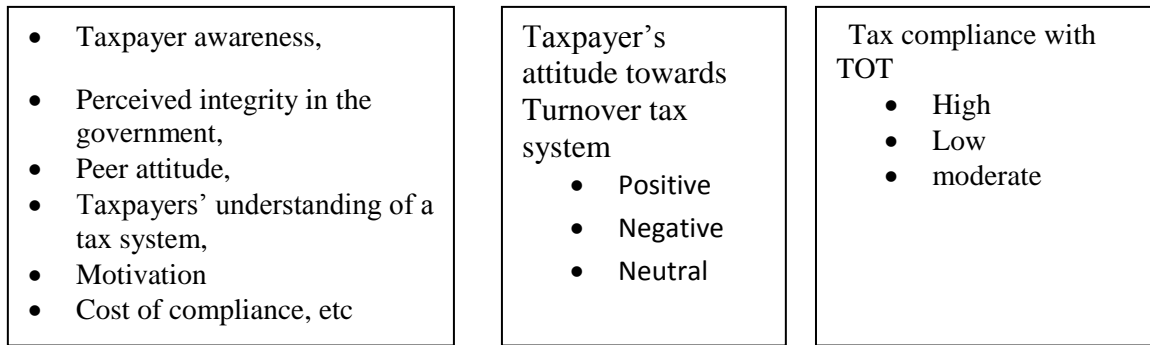


Figure 1: Taxpayers' Attitude towards Tax System and Tax Compliance Behaviour

Source: Researcher's Own Conceptualization (2012)

2.6 Summary and Gaps in Literature

The chapter discussed in depth the concept of taxation in terms of tax administration and compliance. However, from this review, it was evident that although most governments strive to increase revenue collection through taxation, more emphasis has been placed on the quality of public spending as citizens equate paying taxes with better public services and good economic governance. But little attention had been directed to the attitude of taxpayers towards TOT tax system and tax compliance behaviours. This study was imperative in providing a case study of tax administration and compliance with turnover tax using a case study of small business income earners in Kericho town in Kenya.

2.7 Theoretical Framework

In explaining taxpayers' compliance behavior, that is, the reasons why taxpayers comply and do not comply, there are broadly two classes of theories – economic based theories, which emphasize incentives, and psychology-based theories which emphasize attitude (Trivedi & Shehata, 2005).

Economic theories of tax compliance also referred to as deterrence theory. According to Trivedi and Shehata (2005), economic theories suggest that taxpayers “play the audit lottery,” i.e. they make calculations of the economic consequences of different

compliant alternative, such as whether or not to evade tax; the probability of detection and consequences thereof, and choose the alternative which maximizes their expected after tax return/profit (possibly after adjustment for the desired level of risk). The theories suggest that taxpayers are moral utility maximizer hence; it emphasizes increased audits and penalties as a solution to compliance problems. The theory also suggested that taxpayers' behavior is influenced by economic motives such as profit maximization and probability of detection (Trivedi & Shehata, 2005), underreporting (Erard & Ho, 2002; Cobham, 2005), business income taxpayers operating in informal economy (Etchberry, 1992) among many factors.

Psychology theories of tax compliance assume that psychological factors – including moral and ethical concerns are also important to taxpayers and so taxpayers may comply even where the risk of audit is low. The theories de-emphasize audits and penalties and instead focus on changing individual attitudes towards tax system. Trivedi and Shehata (2005) concluded that some taxpayers' behavior may follow economic theories while others may follow the psychological theories and a mixture of the two is also possible.

Theory of Planned Behavior, Ajzen's (1991) theory models behavior as depending on behavioral intention, and behavioral intention in turn as depending on three factors attitude toward the behavior; subjective norms; and perceive behavioral control. This theory advocates that Attitudes relate to one's own personal views about the behavior and that Subjective norms are a function of an individual's perception that one or more relevant people would approve of a particular behavior and the extent to which the individual's behavior will be influenced by that. Perceived behavioral control refers to an individual's perception regarding the extent of control he or she has over a particular behavior. It is modeled as capable of influencing behavior directly as well as through its effect on intentions. The indirect link represents the motivational influence of control on

behavior. To the extent people believe that they have limited control over performing a particular behavior, their intention to perform the behavior may be decreased. The direct link from perceived behavioral control to behavior represents the actual control an individual has over behavioral performance.

2.8. Challenges and strategies employed to meet them

Despite effort by KRA to sensitize taxpayers on compliance, the problem of low filing is still being experienced, which stood at 29% in 2000. Another challenge for KRA is poor integration of the registration and filing processes, most of the operations are still done manually.

When there is not accurately reporting of tax liability in accordance with the tax laws, it result to a non-payment or late payment on the tax due, an understatement of income, and overstatement of expenses (Singh, 2003). Tax evasion and avoidance is still being experienced.

To address the above challenges there has been improvement of access to information by SME and creation of a vibrant information culture. Sensitization workshops have improved the filling of returns and the use of informants by KRA on matters pertaining corruption has reduce it drastically hence increasing revenue collection.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0. Introduction

This chapter discusses the methodological procedures were used in data collection and analyses. Discussed in details are the research design, location of the study, population of the study, sampling procedure and sample size, instrumentation, data collection, and data analysis.

3.1 .Research Design

A research design is the plan, structure and strategy of investigation.

This study adopts a survey research design. A survey research design involves the selection of a sample of respondents and administering questionnaires or conducting interviews to gather information on variables of interest (McMillan & Schumacher, 1993). In a survey design information is collected data from respondents about their experiences and opinions about a particular topic under study in order to generalize the findings to the population that the sample is intended to represent (Gall, Borg & Gall, 1996). This design is the most appropriate for obtaining factual and attitudinal information or for research questions about self-reported beliefs, opinion, characteristics and present or past behaviors (David & Sutton, 2004; Gray, 2004; Neuman, 2000). Since this study seeks to obtain descriptive and self-reported information from the small business income earners, the survey design is the most appropriate. The survey will allow the researcher to expose the respondents to a set of questions to allow comparison. It will assume that all the respondents have information or experience that will bear on the problem being investigated (taxpayers' attitude and compliance with tax system).

3.2. The target Population

The researcher targets 11930 small business income tax payers issued with Municipal Council of Kericho Trading Licence since 2008, and focused mainly on 550 SMES who were registered in 2011.

3.3 .Sampling Procedure and Sample Size

Ideally, it would have been preferable to collect data from all the 11930 small business income tax payers issued with Municipal Council of Kericho Trading License. A representative sample size of 100 out of 550 small and medium size enterprises taxpayers issued with licenses in 2011 were selected using table for determining sample size from a given population by Krejcie and Morgan (1970). A random sampling technique was used.

The study covers a period of 8 months from 1st February 2011 to 31st September 2011. 8 months period was assumed reasonable to demonstrate latest taxpayers' attitude influences on tax compliance.

3.4. Data Collection Instruments and Procedures

The type of data collected was Primary data gathered through the use of a questionnaire with both open and closed end questions. Section A of the questionnaire shows the profile of the respondents subdivided into their personal and business circumstances. Section B&C will constitute Items on the tax compliance behavior along attitudes amongst SMES and extent of adherence to tax policies and Section D. The questionnaires consisted of mainly closed-ended items and a few open-ended items. Some of the closed-ended items, especially on the attitude towards the turnover tax system were assessed in the form of a five-point likert-scale ranging from 1 to 5 (where, 1= strongly disagree, 2 = disagree, 3 = undecided, 4 = agree and 5 = strongly agree). Most of the open-ended items sought opinions of the respondents on various aspects of

the turnover tax. Thereafter, reliability and validity were established for standardization of the research instruments used in the study.

The researcher proceeded to collect data from the selected respondents after receiving permission from the supervisor and University Nairobi. The questionnaire was delivered directly to the individuals (SMES) and collected within one week after all details have been noted by the respondents and clarifications were made to ensure completeness of the information. Due permission was also sought from the Municipal Council of Kericho for acceptance to allow data collection from the SME businesses in town and was briefed about the purpose of the intended study and a date set for data collection.

3.5. Validity of the Research Instrument

The validity of the instruments was the extent to which it does measure what was intended to measure (taxpayers' tax compliance behaviors).

Before embarking on the actual field study, the validity of the Research Instrument was established, the research instrument or questionnaire was given to the experts in the field of business and economics to determine whether the items would really solicit relevant information and their suggestions used to improve on the instruments.

3.6 .Reliability of the Research Instrument.

This is the measure of the degree to which the research instruments yield consistent results. Prior to the actual study, the researcher test the instruments for reliability through a pilot study. The researcher administer questionnaire to small and medium business income tax payers in the neighboring Bureti District. The reliability of data collected using the instruments was tested as follows: first a draft of the instrument was

administered twice to a group of 10 small business income tax payers in the neighboring Bureti District. The SME were given the questionnaire and asked to respond, the data collected were analyzed and the results kept for purpose of comparisons with the second time response that came after two weeks (test-re-test method).

3.7. Data Analysis and Presentation.

The data, after collection, were processed (edited, coded, classified, tabulated) and analyzed accordingly. Detailed analysis was performed to find the mean, percentage and frequencies of the respondents. This was done using descriptive and inferential statistics and presented in tables used to summarize and organize data to describe the characteristics of the sample. In objective one, the independent variable was the tax system, while the dependent variable was the level of compliance with various procedures needed which were also assessed using frequencies, percentages and means. In objective two, the independent variable was the tax system, while the dependent variable was the level of attitude towards tax system. In objective three, the independent variable was the attitude towards tax system and the dependent variable was the tax compliance behaviour among SME business income earners. Chi-square (χ^2) test at 0.05 level of significance was performed in order to reject the hypothesis that taxpayers' attitudes do not influence tax compliance in Kenya and accept alternative hypothesis that taxpayers' attitudes influence tax compliance in Kenya. Strength of the relationship between dependent and independent variables was tested using Pearson correlation. The data were analyzed using procedures within Statistical Package for Social Sciences (SPSS) and presented using frequency tables, bar charts and pie graphs.

Table 1: Summary of Data Analysis

Research Question	Independent Variable	Dependent Variable	Statistic technique
i) What is the level of compliance among SME business income earners with tax system in Kericho town?	tax system	Compliance	Frequencies, Percentages, Means
ii) What is the attitude of SME business income earners tax payers in Kericho town towards tax system in Kenya?	tax system	Attitude	Frequencies, Percentage, means
iii) What is the relationship between the attitude towards tax system and tax compliance behaviour among SME business income earners in Kericho town?	Challenges	Administration of tax system	Pearson's Correlation coefficient

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents a discussion of the research findings on the taxpayers' compliance behavior with tax system among small and medium business income earners in Kericho town, Kenya. The chapter documents the taxpayers' tax compliance behavior in Kenya, the survey of SMEs business income earners in Kericho town, Kericho District. Data was collected from a sample of 100 small and medium size enterprises taxpayers, in Kericho town. The discussion addressed the research objectives of the study which included:

- i) To determine the level of compliance among SME business income earners with tax system in Kericho town.
- ii) To determine the attitude of SME business income earners tax payers towards tax system in Kericho town.
- iii) To establish the relationship between the attitude towards tax system and tax compliance behaviour among SME business income earners in Kericho town.
- iv) To identify the administrative challenges facing SME business income earners in complying with tax system in Kericho town.

Data were collected in reference to each of the objectives and analyzed using a computer statistical programme known as Statistical Package for Social Sciences (SPSS) version 17.0 for Windows. Results are presented using both descriptive and inferential statistics.

4.2 Demographic Characteristics of the Respondents

This section presents a brief description of the demographic characteristics of the sampled respondents involved in this study. Such a description is considered to be very important in providing a better understanding of the respondents included in the study and therefore provide a good foundation for a detailed discussion of the results based on the stipulated objectives of the study. The demographic characteristics included gender, age, Number of years in business, marital status, education level (ability to read and write).

The Kenyan labour market is emphasizing gender equity in its employment policy and representativeness in decision-making. From the sample of 100 small and medium size enterprises taxpayers given the questioner 95 of them responded, 71.0 percent were male while 19.0 percent were female taxpayers. The gender imbalance was attributed to the existing disparities between men and women in ownership of formal business in the town.

Age is an important factor in the taxpayer's productive servicing period. And also it affects the productive business men and women. The research data shows that, 62.0 percent of the respondents were between 30-45 years, 13.0 percent of the respondents were between 20-29 years age bracket, 15.0 of the respondents were between 46-49 years, and 10.0 percent of the respondents were over 50 years. This is an indication that most employees in this category were at their productive ages.

The number of years one has been in business has an influence on his/her taxpayers' experience and level of paying taxes. For those who have been in business for long it implies they are used with the routine practices of paying taxes to KRA

The research data shows that, 53.0 percent of the respondents indicated that they have a 1-5 years experience in business, 33.0 percent indicated that they have 6-10 years

business experience, as 14.0 percent indicated they have over 10 years experience. This is an indication that most taxpayers in Kericho town have very little business experience. . From research data, 90.0 percent of the respondents indicated they have the knowledge on how to read and write, 10.0 percent indicated that they don't have knowledge. This is a clear indication that the taxpayers can understand, interpret the tax laws, and at the same time keep correct books of account and records The ability to read and write influences one's ability understand and interpret the tax laws. The challenge of lack of knowledge of tax compliance behavior towards a tax system is serious on the grounds that it may have played part short falls in tax collection, even after aggressive marketing by KRA in the print and electronic media.

4.3 Attitude of Taxpayers towards Turnover Tax System in Kenya

The second objective researcher sought to determine was the attitude of SME business income earners tax payers towards tax system in Kericho town. The extent of the impact of attitudes and attitude change on tax compliance behavior is not well understood in Kenya which has led to different perspectives on the fairness of the Kenyan tax system. From the research data, 55.0 percent of the respondents indicated that the Kenyan tax system was unfair, as 45.0 percent indicated that it was a fair system.

Tax compliance assumes that psychological factors including moral and ethical concerns are important to taxpayers and so taxpayers may comply even where the risk of audit was low. Psychology theories deemphasize audits and penalties and instead focus on changing individual attitudes towards tax system. The respondents were asked to indicate their extent of agreement or disagreement with some statements relating to some of the factors that influence ones' view on business tax system in Kenya. This was on a likert

scale, where strongly Disagree =1; Disagree=2; Uncertain = 3; Agree=4, as Strongly Agree =5; and the results are in Table 2.

Table 2: Factors Influence one's View on Business Tax System in Kenya

Statement	Mean rating	Std deviation
There is aggressive tax enforcement efforts by KRA e.g. ensuring tax audits and prosecutions of tax evaders take place	3.4430	0.34758
I feel paying tax is an obligation and believe in no corruption	3.4430	0.26609
Failure to pay tax leads to fines and penalties	3.4125	0.13532
I fear tax audits and prosecution	3.4085	0.28355
KRA officials are fair and friendly – they don't harass us in the process of tax collection	3.4027	0.18009
I fear paying tax fines and penalties as a result of overdue tax, non-payment or provision of misleading information	3.4014	0.29706
There is a high degree of being detected for non-payment of the tax	3.2867	0.34758
Government is achieving its tax objectives and is fighting corruption through tax system	3.0201	0.28357
Paying taxes to the government is one's duty	3.0132	0.14167
I use of informants by KRA to report tax evaders	2.9932	0.20094
I operate a legal business and accurately report profits which determines the amount of tax that I pay	2.9257	0.38266
There are no incentives to pay tax	2.8298	0.15138
I feel that I am paying a fair share of tax	2.2192	0.6619
I belief my competitors and business colleagues are reporting and paying tax honestly	2.4161	0.2009
Tax law is easy to understand i.e. calculation of tax filing and paying dates	2.4532	0.2617
It is easy to understand the tax laws i.e. rates of tax; filing and paying dates etc.	2.1987	0.08991

From the results in Table 2,

Most respondents were also indifferent (Mean=3.000) with the paying of tax fines and penalties: the aggressive tax enforcement efforts by KRA, for example, ensuring tax audits and prosecutions of tax evaders take place; the high degree of being detected for non-payment of tax; the fear of tax audits and prosecution; the feeling that tax is an obligation and believing in no corruption; that the government is achieving its tax objectives and is fighting corruption; and lastly indifferent with the harassments by KRA. The above display the extent of the impact of attitudes and attitude change on tax compliance behavior, which they feel, is unfair.

most respondents disagreed (Mean=2.000) that, they are paying a fair share of tax; than their neighbours, that their friends are reporting and paying tax honestly; that tax laws are easy to understand i.e. calculation of tax filing and paying dates; that they make high business profit by operating illegal business, underreporting of profits etc; that taxpayers are given rewards, and that there is use of informants by KRA to report tax evaders.

4.4 Tax Compliance and Tax Non-Compliance Status with Tax system

The first objective sought to determine the level of compliance among SME business income earners with tax system in Kericho town. According to the income tax laws in Kenya, the tax compliance requirements relating to businesses are:

- i. Keeping of up to date books of account by businessmen and women,
- ii. Acquiring of Personal Identification Numbers (PIN) by all potential taxpayers,
- iii. Determining the taxable income according to the stipulated rules and regulation,
- iv. Accurate determination of tax liability
- v. Filing of returns on income by the prescribed date
- vi. Paying of tax dues by the prescribed date

vii. Payment of fines and penalties for overdue taxes and allowing of audit by tax collectors if deemed necessary.

The respondents were asked to give information relating to the above compliance requirements to enable and facilitate the determination of the levels of tax compliance and how taxpayers' attitude influence tax compliance in Kenya. The respondents were asked to indicate whether they had a Personal Identification Number (PIN), and from the research data 58.0 percent of the respondents indicated that they had this requirement hence complying, as compared to 42.0 percent indicated they don't have.

On keeping of up to date transaction records and books of accounts, accounts i.e. cash receipts, invoices, journals, ledgers, cash books, trial balances, profit and loss accounts, and balance sheet, the respondents were asked to whether they keep up to date transaction records and books of accounts. From the research data, 45.0 percent of the respondents indicated that they have partially complied in terms of keeping up to date records and books of accounts. i.e Cash receipts, Cashbook, Balance sheet, Invoices, and Profit and Loss accounts. But other records like the trial balance, Journals and Ledgers as requirements for tax compliance are not up to date. Generally, there is some sort of non-compliance in keeping up to date records and books of accounts.

On payment of taxes, 69.0 percent of the respondents indicated that they pay taxes, a sign that they actually comply. And 88.0 percent of them indicated that they had paid their taxes on or before 30th June, as 12% indicated that they did it after 30th June. Thus other than filing their tax returns, they also comply with the datelines given by KRA. Also from the research data, 80.0 percent indicated that they pay the taxes themselves, as 20.0 percent indicated that it was done through the Accountant hence high compliance.

On whether the taxpayers file tax returns or not; when and who files them, the respondents were asked to indicate whether they file tax returns, when and who files

them, 70.0 percent of the respondents indicated that they file tax returns. 68.0 percent of the respondents indicated that they had filed their tax returns on or before 30th June 2011, compared to 30.0 percent who indicated that they did it after 30th June 2011. Hence indicates that they comply with the deadlines given by KRA. Also 78.0 percent indicated that they file the tax returns themselves, as 22.0 percent indicated that it was done through the Accountant. This shows there is compliance too. These findings support previous studies on taxpayers' perception of the tax system.

4.5 Relationship between the Taxpayers' Attitudes and Tax Compliance

The third objective aimed at establishing the relationship between the attitude towards tax system and tax compliance behavior among SME business income earners in Kericho town. The study assumed that the more positive the attitude of a taxpayer is towards the tax system, the higher was the level of tax compliance, and vice versa. To establish this relationship, the study used Pearson's Correlation Co-efficient (r). Pearson's Correlation Co-efficient was used to determine the strength and the direction of the relationship between the two variables (taxpayers' attitude and tax compliance). Taxpayers' attitude towards tax system was treated as the independent variable while tax compliance was the dependent variable. Table 3 showed a correlation coefficient matrix of taxpayers' attitude and tax compliance.

Table 3: Correlation of Taxpayers' Attitude and Tax Compliance

Variables		Taxpayers' attitude	Tax compliance
Taxpayers' attitude	Pearson Correlation	1	.9843 ^{**}
	Sig. (2-tailed)		.000
	N	100	100
Tax compliance	Pearson Correlation	.843 ^{**}	1
	Sig. (2-tailed)	.000	
	N	100	100

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

Table 3 indicates that there was a strong positive and significant correlation between the taxpayers' attitudes and tax compliance in Kericho town ($r = 0.843$, $p = 0.00$). This suggests that Taxpayers' attitudes encourage tax compliance in Kericho town, and vice versa. Therefore, business owners with a positive attitude towards tax system appreciate the need to pay tax and were more likely to comply. These findings support previous studies on taxpayers' perception of the tax system. The taxpayers' attitude may be influenced by many factors, which eventually influence taxpayer's compliance behavior. These factors differ from one country to another and also from one individual to another. They include taxpayers perceptions of the tax system and Revenue Authority (Ambrecht, 1998); peer attitude / subject norm (Toumi, Hasseldine, Hite, James & Conner, 2000); taxpayers' understanding of a tax system / tax laws (Silvani, 1992; Le Baube, 1992); motivation such as rewards (Feld, Frey & Torgler, 2006) and punishment such as penalties (Allingham & Sandmo, 1972); cost of compliance (Slemrod, 1992; Le Baube, 1992); enforcement efforts such as audit; probability of detection; difference across - culture; perceived behavioral control and Protestant Work Ethics (PWE) (Furnharn, 1983); ethics / morality of the taxpayer and tax collector; equity of the tax systems; demographic factors such as sex, age, education and size of income (Murphy, 2004) and use of informants.

Table 4 .shows the mean perceived import ants of concept and sub concept in explaining compliance.

concept	Sub concept	Mean sub concept	Concept
Norms	-personal	-3.1	3..2

	-social	-3.0	
Possibilities	-opportunity for evasion	-3.5	3.0
	-compliances cost	-2.9	
	-complexity of rules and system	-2.6	
Deterrence	-Audit	-2.7	3.0
	-cost of detection	-- -3.6	
	severity of sanction	-2.7	
fairness	-treatment by tax administration	-3.1	3.0
	-tax system	-2.9	
trust	-government	-2.8	2.5
	-other tax payers	-2.5	
Economic factors	-general	-2.8	2.8
	-business	-3.0	
	-amount of tax	-2.5	

From the research data in table 4 above 80.0 percent of the respondents generally thinks that norms, deterrents, fairness and are more important concepts in explaining compliance than economic factors.

68.0 percent of the respondents perceived that the risk of detection, opportunity of evasion, personal and social norms, and treatment by administration are the most important sub concepts.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presented a summary of the major findings of the study based on the research objectives, conclusions from the findings and recommendations derived from the conclusions. It also covered suggestions for further research on taxpayers' tax compliance behavior with tax system among small and medium business income earners in Kericho town and Kenya in general.

5.1 Summary of the Findings

Based on the study objectives and research questions, the following major research findings are presented:

- i) Most respondents differed that they are paying a fair share of tax; that their neighbours, friends etc are reporting and paying tax honestly; that tax laws are easy to understand i.e. calculation of tax filing and paying dates; that they make high business profit by operating illegal business, underreporting of profits etc; that taxpayers are given rewards, and that there is use of informants by KRA to report tax evaders. They were also indifferent with the paying of tax fines and penalties: the aggressive tax enforcement efforts by KRA e.g. ensuring tax audits and prosecutions of tax evaders take place; the high degree of being detected for non-payment of tax; the fear of tax audits and prosecution; the feeling that tax is an obligation and believing in no corruption; that the government is achieving its tax objectives and is fighting corruption; and lastly indifferent with the harassments by KRA.
- ii) Most taxpayers have complied with the possession of PINs and on keeping up to date transaction records and books of accounts, i.e. cash receipts, invoices, journals,

ledgers, cash books, trial balances, profit and loss accounts, and balance sheet. But there is partially complied in terms other records like the trial balance; Journals and Ledgers are not up to date. The taxpayers complied with the deadlines given by KRA, which they file themselves instead of doing it using the Accountant/ tax advisor. Paying taxes is also one of the requirements of tax compliance in Kericho town; the taxpayers also pay taxes on or before 30th June, by themselves, with a very high compliance.

iii) It was found that there is a very strong relationship between the taxpayers' attitudes and tax compliance in Kericho town i.e. taxpayers' attitudes encourages tax compliance in Kericho town, during the hypothesis testing that "Taxpayers' attitudes do not encourage tax compliance in Kenya", chi-square, It was found that there is a very strong relationship between the taxpayers' attitudes and tax compliance in Kenya since it had a correlation of 0.846 and all the that influence the taxpayers' attitudes, equally affect the taxpayers' compliance with the tax requirement i.e. taxpayers' attitudes encourages tax compliance in Kenya. The taxpayers' attitude are influenced by the factors, which eventually influence taxpayer's behaviour. Some of the factors which influence tax compliance behavior and tax noncompliance behavior differ from one country to another and also from one individual to another. They include taxpayers perceptions of the tax system and Revenue Authority (Ambrecht, 1998); peer attitude / subject norm (Toumi, Hasseldine, Hite, James & Conner, 2000); taxpayers' understanding of a tax system / tax laws (Silvani, 1992; Le Baube, 1992); motivation such as rewards (Feld, Frey & Torgler, 2006) and punishment such as penalties (Allingham & Sandmo, 1972); cost of compliance (Slemrod, 1992; Le Baube, 1992); enforcement efforts such as audit; probability of detection; difference across - culture; perceived behavioral control and Protestant Work Ethics (PWE) (Furnharn, 1983);

ethics / morality of the taxpayer and tax collector; equity of the tax systems ;

Demographic factors such as sex, age, education and size of income (Murphy, 2004)

and Use of informants.

Most respondents disagreed (Mean₂) with the □ factors that are for tax non-compliance are: the ability to understand tax laws i.e. rates of tax, filing and paying dates etc., a feeling that they are not □ paying a fair share of tax, positive peer attitude i.e. a □ belief that your neighbours are reporting and paying □ tax honestly, and Rewarding taxpayers i.e. giving a □ trophy for being best tax- payer, and Motive for low □ profits. they were also indifferent (Mean=3.000) with the paying of tax fines and penalties: the aggressive tax enforcement efforts by KRA, for example, ensuring tax audits and prosecutions of tax evaders take place; the high degree of being detected for non-payment of tax; the fear of tax audits and prosecution; the feeling that tax is an obligation and believing in no corruption; that the government is achieving its tax objectives and is fighting corruption; and lastly indifferent with the harassments by KRA. This means that these factors depending on how they are applied, they can facilitate compliance and non-compliance and this display the extent of the impact of attitudes and attitude change on tax compliance behavior.

5.2 Conclusions

The study assessed the influence of taxpayers' attitude on compliance with tax system among small and medium business income earners in Kericho town, Kenya. The findings demonstrated the strong influence of taxpayers' attitude towards tax system and tax compliance. Based on the summary findings, the study makes the following conclusions:

- (i) Most small and medium business income earners viewed the tax system as unfair.

- (ii) Most small and medium business income earners had complied with requirements of the tax system, especially possession of PINs, and keeping up to date transaction records and books of accounts.
- (iii) There is a strong relationship between the taxpayers' attitudes and tax compliance in Kericho and by extension in Kenya .Taxpayers' attitude towards tax system attitude is influenced by the factors, which eventually influence taxpayer's behavior that encourages tax compliance in Kericho town.

5.3 Recommendations and suggestion for Further Research Studies

In the view of the above conclusions, this study makes the following recommendations:

- (i) KRA should increase publicity and sensitization campaigns to improve the taxpayers' ability to understand tax laws i.e. rates of tax, filing and paying dates etc.
- (ii) KRA should make the taxpayer feel and understand that they are not paying unfair share of tax
- (iii) KRA should work to improve peer attitude i.e. a belief that neighbours are reporting and paying tax honestly, and rewarding taxpayers i.e. giving a trophy for being best tax- payer.
- (iv) Government should institute strict measures to cup corruption on revenue collection which is perceived as major factor affecting tax compliance, attitude and attitude change.
- (v) Since SME are rapidly growing in Kenya, strict measures should be instituted in order to reduce non tax compliance which affects tax collection maximization concept by the tax man.

The study suggests the following areas for further research. A similar study on the concepts of taxpayers' tax compliance behavior towards tax systems, the factors which influence taxpayers' attitudes and the relationship between attitudes and tax compliance behavior among SMEs business income earners which has encountered a lot of debate in every economy. The research recommends a study to be conducted using larger sample, and evaluate the above concepts in other towns and districts in Kenya to improve on the revenue collection so as to build our developing economy. A Subsequent research to confirm the findings and to determine how best to apply them in policy contexts is needed before such findings can be applied to make policy decisions.

REFERENCE

- Ajzen, I & Fishbein (1991). "Theory of Planned Behavior," *Organization Behaviour and Human Decision Processes*, 50(2): 179-211
- Allingham, M.G. & Sandmo, A (1972). Income Tax Evasion: A Theoretical Analysis. *Journal of Public Economics*, 1: 323-338.
www.taxlawsb.com/resources/estates/wash.htm.
- Ambrecht (1998). Increasing Taxpayers Compliance: A discussion of the Negligence Penalty. Paper presented to the ways and Means Committee of U.S. House of Representatives in May 1998, Washington D.c (Online) available
- Bird, R. M. & De Jantscher, M. C. (1992). (Eds). Improving Tax Administration In Developing Countries. Washington D.C: International Monetary Fund, Publication Service.
- Brown, R.E & Mazur, M.J (2003). IRS's Comprehensive Approach to Compliance. Paper presented at National Tax Association Spring Symposium in May 2003, Washington D.C.
- CIAT. (2006). Organisation Structures and Functions of the Tax Administration of CIAT Member Countries . CIAT Technical Publication.
- Cobham A (2005). Tax Evasion, Tax Avoidance and Development Finance: QEH Working Paper 129. (online). Available at <http://www.qeh.ox.ac.uk>
- Erard, B & Ho, C.C. (2002). Developing an Economic Model for Measuring Tax Non-Compliance using Operational Audit Data. Paper presented at 2002. American Statistical Association.
- Etchberry, J (1992). Comments on Improving Tax Compliance. In Richard M.Bird and Milka

- Casanegra de Janfcher (Ed) *Improving Tax Administration In Developing Countries*. Washington D.C., International Monetary Fund, Publication Service.
- Feld, L.P & Frey, B.s. (2002). How Taxpayers are treated, Economics of Tax Evasion and Voting: An Experimental Analysis. *Hyklus*, 55:197-222.
- Jackson, B.R, & Milliron, V.C. (1986). Tax Compliance research: Findings, Problems and Prospects. *Journal of Accounting Literature*, 5125- 165.
- KIPPRA (2004). “Tax Compliance Study”, Tax Policy Unit, Macroeconomics Division, Kenya Institute of Public Policy Research and Analysis, Nairobi.
- KRA (2004). Staff Quarterly Newsletter. *Kenya Revenue Authority, Edition No 22*, December, 2004
- KRA (2006). Third Corporate Plan, 2006/07 – 2008/09. *Kenya Revenue Authority, Volume 1*.
- KRA (2010). Turnover Tax in Kenya: A review. Research and Corporate Planning. November, 2010. *Kenya Revenue Authority*.
- LeBaube, R.A. (1992). Comments on Improving Tax Compliance. In Richard M.Bird & Milka Casnegra De Jantscher (Ed), *Improving Tax Administration In Developing Countries*; Washington D.C., International Monetary Funds, Publication Service.
- Murphey ,K. (2004). An Examination of Tax Payers attitudes towards the Australian Tax System: Findings from a survey of tax scheme investors. Center For Tax System Integrity, Research School of Social Sciences, Australian University Working Paper No. 46.
- Organisation for Economic Cooperation and Development (OECD) (2001). Compliance Measurements Practice Note. Available <http://www.oecd.org/DAF/FSM/minimumattributestaciat.html>.

- Silvani, C.A (1992). Improving Tax Compliance. In Richard M. Bird and Milka Casanegra de Jantscher (Eds), *Improving Tax Administration In Developing Countries*. Washington D.C. International Monetary Fund ,Publication Service.
- Singh, V. (2003). Tax Compliance And Ethical Decision-Making. A Malaysian Perspective. (1st Ed.), Pearson Malaysia Sdn. Bhd.
- Slemnod, J. (1992). (Ed) Why People Pay Taxes. Tax Compliance and Enforcement. Ann Arbor University of Michigan Press.
- Skinner, B.F (1938). *The Behaviour of Organism*. New York: Academic Press.
- Taliercio, R. (2004). “Designing Performance: The Semi-Autonomous Revenue Authority Model in Africa and Latin America”, World Bank Policy Research Working Paper 3423, Washington.
- Trivedi & Shehata (2005). Attitudes, Incentives, And Tax Compliance. Email: strivedi@schalich.yorku.ca

APPENDIX 3: INTRODUCTION LETTER

Robert Kipsigei Korir,
University of Nairobi,
Kisumu Campus

Dear respondent,

My name is Robert Kipsigei Korir, a student at the University of Nairobi undertaking a Master of Business Administration degree in Finance (MBA). As part of the requirements of the course, I am required to undertake a research project in my area of study. My research topic is on “*Taxpayers’ Tax Compliance behavior with Tax System in Kericho Town, Kericho District*”. You have been selected as one of my respondents in this project. Your sincere and correct answers will be important in attaining this goal. All information will be treated with utmost confidentiality.

Thank you for your cooperation.

Robert Kipsigei Korir,

MBA Student

University of Nairobi

APPENDICES

APPENDIX I: TAX PAXPAYER'S TAX COMPLIANCE BEHAVIOUR QUESTIONNAIRE

Instructions:

This questionnaire is designed to find out a few things about you and your job. Please answer the questions truthfully. There is **No Right or Wrong** answers. Tick where appropriate.

Date of receiving the questionnaire

Section A: Background Information

1. Gender Male Female
2. Age (in complete years) _____
3. Level of education
None Primary school
Secondary school Tertiary college
University
4. Marital status
Married Single
Divorced/separated Widowed
5. Type of business
Trading Manufacturing
Construction Services
Agriculture
Any other (specify) _____
6. Form of business
Sole proprietor Partnership
7. What is the estimated monthly turnover of your business in Kshs (based on 2010)
Lowest _____ Highest _____
8. Number of years of experience in this business? _____

Section B: Attitudes towards tax system

Please indicate whether you strongly agree (SA), agree (A), are undecided (U), disagree (D), or strongly disagree (SD) with the following statements about turnover tax system

Statement	SA	A	U	D	SD
Paying taxes to the government is one's duty					
It is easy to understand the tax laws i.e. rates of tax; filing and paying dates etc.					
I feel that I am paying a fair share of tax					
I believe my competitors and business colleagues are reporting and paying tax honestly					
Turnover tax law is easy to understand i.e. calculation of tax filing and paying dates					
There are no incentives to paying taxes					
I operate a legal business and accurately report profits which determines the amount of tax that I pay					
I use informants by KRA to report tax evaders					
Failure to pay taxes leads to fines and penalties					
I fear paying tax fines and penalties as a result of overdue tax, non-payment or provision of misleading information					
There is aggressive tax enforcement efforts by KRA e.g. ensuring tax audits and prosecutions of tax evaders take place					
There is a high degree of being detected for non-payment of the taxes					
I fear tax audits and prosecution					
I feel paying taxes is an obligation and believe in no corruption					
Government is achieving its tax objectives and is fighting corruption through tax system					
KRA officials are fair and friendly – they don't harass us in the process of tax collection					

Section C: tax compliance behavior.

1. Which mode of registration did you register with tax system
Manual registration On line registration
2. Which year did you register with tax system? _____
3. When was the last time that you submitted the tax return this year? _____
4. Amount of tax paid the last time (2011)? _____

5. Do you have a Personal Identification Number (PIN)? Yes No
6. Do you keep up to date transaction records and books of accounts? Yes
No
7. If yes, which of the following transaction records and books of accounts do you keep?
Cash books
Sales receipts and invoices (Daily sales record books)
Purchases invoices
Bank statements
ETR records (in case you have an ETR)
8. Have you been provided with a stencil (TOT 4) where you record your daily sales or takings? Yes No
9. Do you encounter problems with record keeping? Yes No
10. If yes, what problems? _____
11. Do you file tax returns? Yes No
12. If yes, when was the last time you filed the tax returns this year? *Month* _____

13. What was the date of the month that you filed your tax returns the last time?
Before 20th of the month on 20th of the month
After 20th of the month
14. Who files the tax returns? Owner Accountant
Tax advisor

15. How often do you submit tax returns?

Monthly Quarterly
Semi annually Annually

16. Please indicate the mode of filing your tax returns?

Manual filing Online filing

17. Do you encounter problems with filing your tax returns?

Yes No

18. If yes, what problems? _____

19. Which bank do you normally use in making tax payments?

National Bank of Kenya

Kenya Commercial Bank

Cooperative Bank of Kenya

Any other (specify) _____

20. In what form do you normally make tax payments?

Cash Cheque Electronic Funds Transfers

21. Do you know the Tax rate at which you have to pay your taxes?

Yes No

22. Have you ever been penalized by KRA? Yes No

23. If yes, what were the reasons for penalization?

Failing to submit returns later filing of returns

No keeping of records Falsifying records

24. Have you ever attended any taxpayer education/sensitization on tax compliance?

Yes No

25. If yes, how often do you attend?

Every month Quarterly

Semiannually Annually

26. How do you obtain information on tax matters?

Personal visit to KRA offices written inquiry

Brochures Telephone

- TV/Radio KRA website
- Print media (newspapers, etc)

Section D: Administrative challenges

1. Please indicate whether you are extremely dissatisfied (ED), dissatisfied (D), neither satisfied nor dissatisfied, that is undecided (U), satisfied (S), or extremely satisfied (ES) with the following aspects of administration of tax in Kenya.

	ED	D	U	S	ES
Ease in filing up the tax forms					
Simplicity in procedures in submitting tax returns					
Clarity in procedures in submitting tax returns					
Ease in complying with tax processes					
Fairness in decisions of tax officials					
Ease in getting tax refund					
There is a good tax administration system					

2. Please provide us with any suggestions/ comments you may have to improve the tax administration in Kenya? _____
