

**THE EFFECT OF TAX RELATED EDUCATION ON PAYE TAX COMPLIANCE
FOR KRA AUDITED FIRMS IN NAIROBI CENTRAL BUSINESS DISTRICT**

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UNIVERSITY OF NAIROBI

DECLARATION

This research project is my original work and has not been presented for a degree in any other University

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LIST OF ABBREVIATIONS

DID: Difference in Difference approach

EPZ: Export Processing Zone

KRA: Kenya Revenue Authority

NCBD: Nairobi Central Business District

PAYE: Pay As You Earn

PIN: Personal Identification Number

SME's: Small and Medium Enterprises

SPSS: Statistical Package for Social Sciences

TCMP: Tax Compliance Measurement Program

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ABSTRACT

Tax is an important stream of revenue for government's development projects. However, PAYE tax compliance in Kenya is generally poor because of inadequate knowledge among the taxpayers. The main aim of this study was to determine the effect of tax related education on PAYE tax compliance for the Kenya Revenue Authority audited firms in Nairobi. This study examined taxpayers' education as a key strategy in achieving voluntary PAYE tax compliance among the tax payers. The study adopted a survey research design.

The sample in this study consisted of business enterprises that operate within the NCBD that were audited/not audited by KRA in 2012-2013 irrespective of their trade. They represented the Hospitality, Real Estate Agency, Trade, Financial Services, and Education sectors. Since the study requires a short time period to complete only 50 firms were sampled. The survey data was collected using a self-administered questionnaire and was filled in by the Owners or Finance Managers of the firms within the NCBD. Regression analysis was used to determine the relationship that existed between the dependant variable and the independent variable.

The findings revealed that there was adequate knowledge on tax issues among the Owners and Finance Managers of the enterprises. This is because a greater proportion of the respondents (86%) indicated that they knew all PAYE rules an indication that they were well informed about income taxes and the PAYE system, 90% reported that PAYE audit made them understand the PAYE rules. It also revealed that PAYE tax education has an effect on voluntary PAYE tax compliance.

Further studies on the subject in question can bring new insight and enrich common understanding. There is need to research more on PAYE tax compliance as most of the empirical findings in this area are from developed countries. On this basis, the study proffered that there is need for tax education to be offered to students pursuing non-accounting courses and not restricted to accounting students at all levels. Also, government and other stakeholders should work together to reduce PAYE tax complexity and compliance cost in order to encourage voluntary compliance.

DEDICATION

To my parents, John and Mary for teaching me the value of education at an early stage.

To my dear wife, Rosalyn for your unconditional love and support.

To my lovely daughters, Ivanna and Arianna for religiously staying up late waiting to see me after school.

This project is dedicated to you all.

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To the Almighty God, for the gift of good health and sound mind throughout the entire journey and giving me the strength to clear all the hurdles that seemed impossible.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The Pay As You Earn (PAYE) system was introduced in Kenya in 1986 with the objectives of speeding up the collection of tax revenue, reducing administrative collection cost and more importantly introducing convenience into the tax system. For the purpose of ensuring compliance with the PAYE system, rules were appended to section 37 of the Income Tax Act which should be observed by employers whenever they make payments to employees in the form of emoluments.

In order to establish a strong prospect that non compliance will be detected and effectively punished, Sec.56 was introduced into the Act to give the commissioner authority to inspect the employers' records. Other compliance enforcement sections include Sec.72 (D) which imposes interest and penalties on unremitted tax and Sec.109 which empowers the commissioner to institute legal proceedings against an employer, in a court of law.

1.1.1 Audit related PAYE Tax Education

In an effort to ensure that employers comply with the operations of the PAYE system, the Income Tax Department introduced PAYE audits at the same time with the PAYE system and has handled audit cases from that period. Since it is not possible to carry out PAYE audits on all registered employers in any one year of income due to administrative difficulties PAYE supervisors have found it necessary to identify cases which may require audit inspection in any given year.

The process used in identifying audit cases involves: review of employers' records, review of end of year return reconciliations, follow up on informer cases where an employer has been reported to be flouting the PAYE rules usually through the media and volunteered information, review of the records of employers who are exempt from corporate tax, (some NGOs, and those in EPZ) where the employees assume that like their organizations they are also exempt, review of records of amnesty cases where some employers sought for amnesty in 1993 but never effected the necessary adjustments, review of the records of professional firms (e.g. Lawyers, Auditors, Engineers, and Quantity surveyors etc), follow up on officers' own knowledge

obtained through gossip and careless speeches from employees, and review of the records of government parastatals and diplomatic missions who may not be recovering PAYE from their local employees.

PAYE Audit involves a detailed examination of the employer's accounting books and records maintained for payments and accounting of emoluments of employees. The type of employers' records which the auditors should request for examination will depend on the nature of the business activities or the type of the organization. The position on this and the scope of the audit are established during the opening interview.

1.1.2 PAYE Tax Compliance

PAYE tax compliance is an area of concern for all governments and tax authorities worldwide, and it continues to be an important issue that must be addressed. Regardless of time and place, the main concern faced by all tax authorities is that it has never been easy to persuade all taxpayers to comply with the regulations of a PAYE tax system. Voluntary PAYE tax compliance is a person's act of completing the Income tax form, declaring all taxable income accurately and disbursing all payable taxes within the stipulated period without having to wait for follow up action from the tax authorities (Singh 2003). In contrast to the majority of employed people, who in many countries are paid salaries with PAYE taxes having been deducted at source, informal sector investors often need to self-assess and self-report their income and pay taxes "out of their pocket." They not only pay their PAYE tax but need to take account of various types of business taxes such as corporate tax, property taxes and payroll taxes. They also need to collect other taxes such as VAT and withhold taxes such as personal income taxes in cases where they have at least one employee (Christensen et al., 2001). When the level of PAYE tax compliance is low, the government's revenue collection always falls behind targets. During the 2011/2012 financial year, KRA reported a tax shortfall of Ksh12.7 Billion therefore leading to a tax deficit.

PAYE Tax compliance amongst taxpayers is improved when taxpayer education and enforcement functions are balanced to achieve the desired levels of PAYE tax compliance (Misra, 2004). Tax education is a key public sector responsibility that touches the lives of citizens and their businesses on a daily basis. Failure to understand the PAYE taxation system

leads to less compliance since most people will avoid it because they do not know what they should pay and why they should pay tax.

1.1.3 Audit related PAYE Tax Education and PAYE Tax Compliance

Adesina (2005) defined an Audit as the examination of accounting documents and of supporting evidence for the purpose of reaching an opinion concerning their propriety. It is an examination intended to serve as a basis for an expression of opinion regarding the fairness, consistency, and conformity with accepted accounting principles of statement prepared by a corporation or other entity for submission to the public or to other interested parties. PAYE Tax audit is therefore a means of ensuring compliance with the tax laws. The primary purpose of tax audit is to maintain the confidence in the integrity of the self-assessment system. It helps to improve voluntary compliance by detecting and bring to book those who do not pay the correct amount of tax. One of the cardinal principles governing the tax audit program is that each line of business should receive at least a nominal amount of audit attention. The selection of times for audit is management decision and criteria used vary from time to time (Ola, 1999).

The idea of PAYE tax audit is being conducted in developing countries such as Kenya where monitoring agents have been appointed to carry out PAYE tax audit on the governments' behalf. These monitoring agents are mostly Revenue Authorities who are performing the function of carrying out tax audit of PAYE. It has become a routine for governments to carry out PAYE tax audit exercise in order to fulfill all righteousness that the actual tax due to the government have been deducted and remitted to the governments' accounts (Ojo, 1998).

1.1.4 KRA Audited firms in Nairobi Central Business District

These are firms that are located within the Central Business District of Nairobi County and have undergone a tax audit by the Kenya Revenue Authority. The NCBD takes a rectangular shape, around the Uhuru Highway, Haille Selassie Avenue, Moi Avenue, and University Way. It features many of Nairobi's important buildings, including the City Hall and Parliament Building. The city square is also located within the perimeter. Most of the skyscrapers in this region are the headquarters of businesses and corporations, such as I&M and the Kenyatta International Conference Centre. In 2011, the city was considered to have a population of about 4 million residents. Nairobi downtown area or central business district is bordered to the southwest by Uhuru Park and Central Park.

1.2 Research Problem

One of the major objectives of PAYE Audit is to educate Tax payers on compliance with PAYE regulations. The assumption is that it will improve the level of compliance. What is being investigated is whether those who have undergone PAYE audit are more compliant with PAYE rules than those who have not.

Despite the fact that there are many studies related to tax compliance for developed countries, no study has been carried out to investigate the impact of audit based PAYE education on subsequent compliance. Some related studies, in particular (Lumumba, et.al. 2010; Omondi, 2010; Moyi and Ronge, 2006; Karingi, et.al. 2005) have investigated the relationship between education, tax audit and tax evasion; and also discussed about ethics on tax evasion in Kenya. None of them have looked specifically at the impact of post audit PAYE tax education on compliance behaviour. Realizing the significant effect on tax revenue due to low levels of tax compliance on an economy and a lack of a study in this area in the Kenyan context, this study attempts to fill the gap. Specifically, this study attempts to ask the question: What is the impact of post audit PAYE tax education on knowledge and commitment to compliance with PAYE rules in the Nairobi Central Business District and its relative contribution to revenue collection in Kenya. This question is important because many developing countries including Kenya have recently introduced this procedure with the view to improve tax payers' compliance and as an effective enforcement measure.

In order to answer the research question, we develop a conceptual framework about the impact of PAYE tax related education during an audit on PAYE tax compliance by employers. We identify the additional tax payments imposed on the employer in response to PAYE non-compliance relative to the total payroll as an additional cost to the firm which has compliance effect. We also identify other corporate characteristics that may affect the PAYE tax non-compliance. These include high administration costs, complexity of tax laws and procedures, services provided by the Income Tax department to the employer and the prior exposure to or knowledge of the operations of the PAYE system and i-tax. Employers in the pre-audit period are assumed to be unaware of the PAYE rules and have an attitude which is sympathetic with the employees in relation to the tax burden borne by the employees. During this period they are also assumed to be uncommitted to tax payment even where they have knowledge of the need to pay. In this period, they have incentive to underreport taxable income and misapply the law.

This model treats taxpayers' compliance behavior as a function of the knowledge gained from the PAYE audit and the increased level of commitment to PAYE rules. This approach therefore differs from previous studies because it is based on the assumption that being audited in the past does not necessarily increase future compliance unless it is accompanied by new knowledge and increased commitment. The second reason why it differs is that it is focusing on taxpayer's agents namely employers and not employees who are affected by the tax liability themselves.

KRA has put in place many initiatives aimed at improving PAYE tax compliance. Among these initiatives are that it has strengthened the compliance department, introduced E-filing, improved audit techniques and creation of separate units to deal with different categories of taxpayers such as the Large tax payers unit, Medium tax payers unit and Small tax payers unit. As a result over the last 5 years, tax revenue has increased to over 1 trillion. There is currently no study that has isolated the impact of PAYE tax related education from other initiatives. However, there is evidence to prove that attitude is a strong factor in compliance which is affected by education.

In conclusion, studies elsewhere indicate that there is a strong relationship between education and attitude. There is evidence linking education to attitude change and also linking change of attitude with improvement of tax compliance. The studies have been carried out in an environment which is not Kenyan, which means that the findings are not necessarily relevant to the Kenyan context. This is why we need a study in the Kenyan context and given the variation in levels of tax education, there is need to establish whether PAYE tax related education impacts on knowledge on PAYE rules and increases commitment towards PAYE tax compliance in NCBD.

1.3 Objectives of the study

The main objective of the study is to determine the effect of tax related education on PAYE tax compliance.

Specific Objectives

1. To determine the level of PAYE Tax knowledge gained after an audit
2. To measure the level of commitment to PAYE system
3. To establish the level of compliance with PAYE rules

1.4 Value of the study

Evidence from this study should inform policy makers involved in designing PAYE tax compliance policies. Our findings should also help tax authorities and field auditors to plan more effective and efficient PAYE tax audits that help to educate employers on PAYE rules. In addition the results should provide researchers with a new perspective on the effect of tax related education during audits on employers' compliance

The study will also provide the shareholders and directors of various business organizations as well as individual PAYE taxpayers in Kenya with information on strategies to apply in the continuously changing PAYE tax policies in order to ensure their compliance. The findings of this study are also expected to provide theory and information on taxpayers' level of PAYE tax education and compliance and hence increase the body of knowledge in this area that can be used by researchers and students interested in further studies on PAYE tax

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter covers Theoretical Literature, Determinants of Tax compliance and Empirical literature that relates to PAYE tax.

2.2 Theoretical Literature

The theories of tax compliance assume that psychological factors including morals and ethical concerns are also important to the taxpayers.

2.2.1 Theory of Planned Behavior

This theory is a successor to the Theory of Reasoned Action of Ajzen and Fishbein (1980). This theory tries to explain human behavior. According to this theory, the behavior of individuals within the society is under the influence of definite factors, originate from certain reasons and emerge in a planned way. The ability to perform a particular behavior depends on the fact that the individual has a purpose towards that behavior (behavioral intention). Behavioral intention in turn depends on three factors that is Attitude towards the behavior, Subjective norms and Perceived behavioral control. These three factors are also under the influence of behavioral beliefs, normative beliefs and control beliefs. The focus of this theory therefore is on the taxpayer's morals and ethics. The theory suggests that a taxpayer may comply even when the probability of detection is low. As opposed to the economic theories that emphasize on increased audits and penalties as solutions to compliance issues, psychological theories lay emphasis on changing individual attitudes towards tax systems.

2.2.2 Economic Deterrence Theory

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

believe that people choose to obey or violate the law after calculating the gains and consequences of their actions.

Economic Deterrence model, one of the economic based models was developed by Allingham and Sandmo (1972) who extended the expected utility model of criminal activity originated by Becker (1968) to the tax arena. This model incorporates the concept of an economically rational taxpayer who will evade taxation as long as the pay-off from evading is greater than the expected cost of being caught. Allingham and Sandmo (1972) proposed a seminal economic deterrence model based on the expected utility function of the taxpayer who evades. This model incorporates several aspects. Firstly, the taxpayer has some level of risk aversion, the more risk averse the taxpayer is, the less likely (s) he is to evade taxes. Secondly, the taxpayer needs to have knowledge regarding the taxation system in order to assess the probability of being detected, and the extent of the penalties that may be incurred upon detection. Under A-S model the taxpayer decides upon the amount of taxes to report to the taxing agency. When making this decision the taxpayer seeks to maximize expected utility which is defined to be the sum of the utility value of each outcome weighted by the probability that the particular outcome occurs. The A-S model shows that the higher probabilities of audit deter underreporting and that a higher rate for the proportional tax leads to lower levels of reported income. The general conclusion of this theory is that compliance depends largely on tax audit and penalty. The implication of the theory is that taxpayers will pay taxes only because of the fear of sanctions.

2.3 Determinants of PAYE Tax Compliance

Tax authorities will seek to reduce the risk of PAYE non-compliant behavior through continuously conducting PAYE tax audits of different sorts and other means such as various compliance influencing activities including PAYE tax education. Some literature like Allingham and Sandmo (1972), and Andreoni *et al.*, (1998) therefore characterize and explain PAYE tax compliance as the output of interrelation among variables including perception of equity, efficiency and incidence (public finance views). Tax enforcement aspects like penalties and the probability of detection also relate to PAYE tax compliance while other labour market behavior factors including an individual's wages and tax bracket also contribute to PAYE tax compliance (Kirchler, 2007).

2.4 Empirical Literature

The available evidence on the effects of taxpayer audits shows contradictory results on the magnitude of their tax compliance impact. Norman and Ratto, (2012) distinguish two main approaches: studies that consider the effects of experiencing an audit and studies that consider the effects of an increased probability, or threat, of an audit. Among the former, early work by Long and Schwartz (1987) and Erard (1992) using Tax Compliance Measurement Program (TCMP) data, found little effect of audits on future behavior. On the other hand, Dubin, et, al., (1990), Tauchen,et, al., (1993), Plumley (1996), and Dubin (2007), using time series cross-sectional information from individual tax returns aggregated at state level, found that audits had a large positive compliance effect with the indirect effects of an audit outweighing the direct effect.

These recent findings based on individual data find some support from experimental evidence. For example, some laboratory studies in the 1980s showed that subjects being audited in earlier rounds of experiments increased their compliance in later rounds (Spicer and Hero, 1985; Benjamini and Maital, 1985; Webley, 1987). One interpretation of this is that being audited in one year raises taxpayers' perceptions of the chances of being audited in subsequent years. However, more recent experimental studies by Mittone (1999, 2006), Maciejovsky, Kirchler, and Schwarzenberger (2007), and Kirchler (2007), which are specifically designed to examine the dynamics of compliance after an increase in the audit rate, suggest a sharp decrease in compliance immediately after an audit, followed by an increase after a number of rounds. They interpret this as evidence that a recently audited taxpayer believes the likelihood of a subsequent audit is small (even when participants know that audits are truly random). After a few rounds however, the presumed likelihood of an audit again increases, raising compliance.

The Slemrod, Blumenthal, and Christian (2001) analysis of the effects of a threat of an audit is one of only a few studies that examine actual PAYE taxpayer responses. With the cooperation of the Minnesota Department of Revenue, a group of randomly selected taxpayers (the "treatment group") was informed by letter that their upcoming tax returns would be "closely examined." The effect of receiving the letter was estimated using a difference-in-difference (DID) approach, as the change in declared income before and after the letter was sent was compared between the treatment group and a control group of randomly selected taxpayers who did not receive the letter. Results suggested that the "audit threat" effect varied depending on the level of income

and on opportunities to evade. Among low and middle income taxpayers, the audit notice had a very large, positive impact on high opportunity taxpayers, a 12 percent increase in reported tax for middle-income, high-opportunity taxpayers, and a 145 percent for low-income, high opportunity taxpayers. However, tax liability for high-income taxpayers appeared to fall significantly compared to the control group. A plausible explanation provided by the authors was that high-income taxpayers, having more complicated tax affairs and being more likely to have professional assistance with their tax matters, may have interpreted the audit threat information differently from other taxpayers. In particular, they suggest that such taxpayers may have believed that the ultimate outcome of an audit is easier to manipulate than did other taxpayers and that it depended more on their initial report.

More precisely, expected income upon audit may not be a monotonically increasing function of declared income, but it may reach a maximum at some level of declared income less than actual income. Hence, facing a certain audit, they would optimally report less income than before in order to maximize expected income in the audit state.

These various results challenge the simple view that a tax audit, or increased audit threat, necessarily raises a taxpayer's compliance in future. Individuals form perceptions not only about the probability of being audited but also, conditional on being audited, about the probability of being caught evading and the extent of detected evasion. If an audit does not fully identify evaded tax, then perceptions of being caught in future could be lowered, potentially reducing compliance. Slemrod, et. al, (2001) show that audit threat responses differ across types of taxpayers and can affect taxpayers' perceptions about being audited in different ways, depending on their income and opportunities to evade

Alm, et. al., (2009), used experimental approaches to examine how "official" information from the tax authority and "unofficial" information from other taxpayers affects PAYE compliance choices. In particular, they showed that responses to post-audit information are conditioned by how well informed taxpayers are regarding audit rates prior to the audit.

The level of PAYE tax knowledge is of importance to the way people comprehend the reality underlying taxation and the associated attitude to taxation that is expressed (Mohd, 2005). Misperception plays a major role shaping fairness evaluations, attitude to one's own tax evasion, and attitude to other people's tax evasion (Roberts et al, 1994). Therefore biases are likely to

arise with incomplete information or incomplete knowledge. Attitudes about the tax system and perceptions of fairness are influenced by what the public actually knows about the tax system.

When myths and misperceptions are replaced by knowledge, we expect a change in attitudes towards taxation even if the subject's basic ideology and values remain unchanged and the tax law is unchanged.

Cuccia and Carnes (2001) affirm in consistency with prior research (for example White, Curatola, & Samson, 1990; Christensen, Weihrich, & Newman, 1994) that, the mediating effect of explicit justifications on equity perceptions suggests that increased education that enhances the understanding and acceptance of specific sources of tax complexity and/or tax burden distributions may serve to re-frame equity assessments and lead to increased equity perceptions without actual law changes. According to Eriksen and Fallan (1996), better PAYE tax knowledge accounts, at least in part for the improved perception of fairness and attitudes to other's tax invasion.

Blum and Kalven (1953); Keene (1983) have suggested that the complexities of progressive taxation may not be well understood by the general public. If the consequences of progressive taxation are not well understood, then the results of surveys that rely solely on abstract questions to determine public support for progressive or flat tax rates may be misleading. In order to better describe the preferences for fair tax rates among the public, researchers should consider using multiple methods, including more concrete frames, and questions that allow a determination of the respondent's understanding of tax terminology.

Education attainment is an important determinant of tax evasion (Richardson, 2006). It usually relates to a taxpayer's ability to comprehend and comply or not comply with income tax laws (Jackson & Milliron, 1986). Enhancing the level of general fiscal knowledge, tax compliance improves because of more positive perceptions about taxation. Increased knowledge of tax evasion opportunities has a negative influence on tax compliance as it assists non-compliance.

However, the vast majority of studies examining the impact of education on tax evasion use a taxpayer's general education level as the approach to measure education (Richardson & Sawyer, 2001). Higher PAYE tax knowledge is also assumed to lead to higher PAYE compliance rates (Carnes & Cuccia, 1996). According to Eriksen and Fallan (1996), as the level of PAYE tax

knowledge increases, the rate of tax evasion is decreased, and the level of PAYE tax compliance becomes much higher.

The idea of commitment is an important one for PAYE compliance to be achieved. What seems to be needed is the commitment of the members of the organization to the PAYE system and its objectives. Although definitions of commitment do vary somewhat, the three major components appear to be; a sense of identification with the commitment object, a sense of involvement and psychological immersion in one's work resulting into considerable enjoyment, and a sense of loyalty, perhaps even affection, towards the particular object. In a study by Hrebiniak, (1974 as cited by Simiyu, 1979), he found such commitment to be present in those who basically trust their organization, and who have a clear understanding of what they are expected to do. Kantor refers to control commitment dimension which is conceived as attachment to norms which shape behavior in desired directions. Since commitment can only occur in a low pressure environment, it should only be found in an after audit period where management have decided to voluntarily comply with PAYE rules.

2.5 Summary of Literature Review

The theories of tax compliance assume that psychological factors are also important to the taxpayers. They include the Theory of Planned Behavior which is the successor to the Theory of Reasoned Action of Fishbein and Ajzen (1975), Ajzen and Fishbein (1980) and Ajzen (1988) and the Economic Deterrence theory which is a theory under criminology developed by Becker (1968). Economic Deterrence model, one of the economic based models was developed by Allingham and Sandom (1972) who extended the expected utility model of criminal activity originated by Becker (1968) to the tax arena.

Some literature like Allingham and Sandmo (1972), and Andreoni *et al.*, (1998) characterize and explain PAYE tax compliance as the output of interrelation among variables including perception of equity, efficiency and incidence (public finance views). Norman and Ratto, (2012) distinguish two main approaches: studies that consider the effects of experiencing an audit and studies that consider the effects of an increased probability, or threat, of an audit. The Slemrod, Blumenthal, and Christian (2001) analysis of the effects of a threat of an audit is one of only a few studies that examine actual PAYE taxpayer responses.

Alm, et. al., (2009), used experimental approaches to examine how “official” information from the tax authority and “unofficial” information from other taxpayers affects PAYE compliance choices. The level of PAYE tax knowledge is of importance to the way people comprehend the reality underlying taxation and the associated attitude to taxation that is expressed (Mohd, 2005).

According to Eriksen and Fallan (1996), better PAYE tax knowledge accounts, at least in part for the improved perception of fairness and attitudes to other’s tax evasion. Blum and Kalven (1953); Keene (1983) have suggested that the complexities of progressive taxation may not be well understood by the general public. Education attainment is an important determinant of tax evasion (Richardson, 2006). It usually relates to a taxpayer’s ability to comprehend and comply or not comply with income tax laws (Jackson & Milliron, 1986). Higher PAYE tax knowledge is also assumed to lead to higher PAYE compliance rates (Carnes & Cuccia, 1996). According to Eriksen and Fallan (1996), as the level of PAYE tax knowledge increases, the rate of tax evasion is decreased, and the level of PAYE tax compliance becomes much higher.

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CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Chapter Overview

This chapter describes the research design involved in the study. There are two main sections in this chapter. The first section describes the different research designs and justifies the approach selected for this study in light of the research questions. The second section discusses the survey method of data collection which will be used in this study. The discussion covers sampling frame, survey instrument and data analysis techniques.

3.2 Research Design

According to Creswell (2003), there are three approaches available for researchers to design their research methodology.

The first approach is a quantitative design. This is one in which the investigator primarily attempts to use post positivist claims for developing knowledge like cause and effect thinking, reduction to specific variables and hypotheses and questions, use of measurement and observation, and the test of theories. It employs strategies of inquiry such as experiments and surveys, and collects data on predetermined instruments that yield statistical data. Quantitative inquiries use numerical and statistical processes to answer specific questions. The primary criterion that should be considered for selecting an approach is the research problem (Creswell, 2003). In view of that, a quantitative approach is best if the problem is identifying factors that influence an outcome, the utility of intervention, or understanding the best predictors of outcomes. This approach is also best to test a theory or explanation.

Conversely, a qualitative approach is preferable if a concept or phenomenon needs to be understood because little research has been done on it. This approach is exploratory and therefore, is superior when the researcher does not know the essential variables to examine.

Since the objective of this study was to establish whether an individual's tax compliance behavior is determined by the previous Tax audit and his level of knowledge of tax rules and the level of commitment, the quantitative research design is adopted in this study. The following sub-sections describe the population and sampling frame, data collection methods, and data analysis techniques used in the survey design method.

The basic idea behind survey design is to measure variables by asking people questions and then examining relationships among the variables. In most instances, surveys attempt to capture attitude or patterns of past behavior. The existing options are to ask people questions at a point in time or over time. The most commonly seen survey studies use the cross-sectional design, which asks questions at one point in time (Babbie, 1990). The cross-sectional design is used in this study.

3.3 Survey Sampling Design

The sample in this study consisted of business enterprises that operate within the NCBD that were audited/not audited by KRA in 2012-2013 irrespective of their trade. They were however representing the Hospitality, Real Estate Agency, Trade, Financial Services, and Education sectors. Since the study required a short time period to complete only 50 firms were sampled.

In order to ensure a higher response rate, the researcher personally administered the questionnaires to ensure that all questions were returned and answered. Being present on the field enhanced the confidence level of the respondents in giving their response to the questions.

Sampling is the process of selecting some element from the entire population. The total target population was all businesses in NCBD which were audited/not audited in 2012-2013 by KRA. Taxpayers were grouped in categories and a sample selected by using simple random sampling from each category. Since there are five categories, a total of 50 firms were selected.

After selecting the cases for study, the following classification was done:-

1. Those that had pre-audit training on PAYE system
2. Those that had not undergone pre-audit training on PAYE system
3. Industry classification
4. Foreign and local
5. Size classification based on number of employees.

3.4 Survey Data Collection

3.4.1 Questionnaire Design

The survey data was collected using a self-administered questionnaire (appendix 1) and was filled in by the Owners or Finance Managers of the firms within the NCBD. The questionnaire was prepared in English language and divided into four sections. The first section (section A) dealt with the demographic information of the respondents. In this section respondents were asked to select their category, years of operation, type of business and KRA registration status. The respondents were asked to select from the respective categories.

The second section (section B) contained questions designed to measure the amount of tax knowledge where the respondents were tested on the income tax laws such as taxable employment benefits, reliefs, exempt employment benefits and tax rates. They were also tested on PAYE rules. There were only 8 simple questions judging the tax knowledge of the respondents. The questions required the respondents to answer Yes or No. One mark was given for each Yes answer and Zero mark for a No answer. This is consistent with the method adopted by prior studies (Fallan and Eriksen, (1996); Mottiakavandar et. al. (2004) where marks were allocated for each question in order to measure the amount of tax knowledge. Based on the marks, it would mean that the higher the scores obtained, the higher the level of tax knowledge.

The third section (section C) consisted of questions concerning Commitment and fourth section (section D) covered PAYE compliance. Commitment and compliance questions were scored using a five- point Likert scale. There were a total of 31 questions asked to the respondents. Section A consisted of 5 questions, Section B 8 questions, Section C had 8 questions and Section D had 10 questions. The survey questionnaires were developed with the intention of extracting information about the level of tax knowledge of actual tax payers, their levels of commitment and their levels of tax compliance. Validity test was done. This is the amount of systematic or built-in error in measurement (Norland, 1990). The questionnaire's validity was pre-tested on a sample of respondents to ensure that the questionnaire items were clearly worded and structured so that it was easily understood by the layman.

Reliability of the questionnaire using a pilot test was carried out. Reliability refers to random error in measurement. Reliability indicates the accuracy or precision of the measuring instrument

(Norland, 1990). The pilot test sought to answer the question; does the questionnaire consistently measure whatever it is designed to measure? The use of reliability types (test-retest, split half, alternate form, internal consistency) depends on the nature of data (nominal, ordinal, interval/ratio). To assess reliability of knowledge questions, test-retest or split-half is appropriate. Reliability was established using a pilot test by collecting data from 20-30 subjects not included in the sample. Data collected from pilot test was analyzed using SPSS (Statistical Package for Social Sciences). SPSS provided two key pieces of information. These are "correlation matrix" and "view alpha if item deleted" column. Items/statements that have 0s, 1s, and negatives were eliminated. Then view "alpha if item deleted" column to determine if alpha can be raised by deletion of items. Items that substantially improve reliability were deleted. To preserve content, delete no more than 20% of the items. The reliability coefficient (alpha) can range from 0 to 1, with 0 representing an instrument full of error and 1 representing total absence of error. A reliability coefficient (alpha) of 0.70 or higher was considered acceptable reliability.

The questionnaire had a cover letter explaining the purpose and nature of the study and an assurance that all responses were treated with confidentiality. Data cleaning was done by confirming the numbering of the questionnaires, checking for completeness, discarding unclear and incomplete questionnaires and arranging them logically. Data entry was done by a computer analyst who systematically fed data into the computer. Validity of the study was maintained by excluding inconsistent and imprecise data. Ethical considerations were upheld in order to avoid causing emotional harm. It was achieved through getting informed consents from the employers' directors and the commissioners of PAYE tax.

3.5 Survey Data Analysis Techniques

The collected data was analyzed using descriptive techniques such as frequencies, mean score and proportions. The survey data results and analysis section were divided into four parts. Part one presented the background information of the respondents involved in the study. The second part described the tax knowledge level of actual tax payers. The third part described the level of commitment and the last part explained the tax compliance level of the tax payers who were involved in the survey study.

Finally, the results were presented in tables or figures. The data was then analyzed using SPSS (Statistical Package for Social Sciences) to test the regression model suggested in the study. Other statistics such as Chi-square tests and t-distribution were employed.

3.6 Data Analysis and Presentation

In this study, the amount of tax knowledge was categorized into two groups whether low or high levels. This is consistent with prior research on tax compliance conducted by Mottiakavandar et.al. (2004) .As discussed earlier, the amount of tax knowledge was measured by allocating marks for each questions. One mark for ‘‘Yes’’ answer and Zero mark for ‘‘No’’ answer. Based on the marks obtained, 4 was used as the cut-off point between these two groups. If the value was above the cut-off point, it was assumed that the respondents had high tax knowledge and for the value below its cut-off point the respondents had low tax knowledge.

3.6.1 Analytical Model

From the primary data sources, PAYE Tax Knowledge and Commitment was summarized for each of the firms in table form to facilitate data analysis. In line with the study objectives, the study used linear regression model. The linear regression model sought to establish the relationship between PAYE Tax Knowledge, PAYE Tax Commitment and PAYE Tax Compliance.

The following Regression model was used in performing the research:

$$Y=B_0 + B_1X_1+B_2X_2+\epsilon_i$$

Where Y= PAYE Tax Compliance

B_0 =Y-Intercept (Constant)

B_1 =Coefficient of X_1

B_2 =Coefficient of X_2

X_1 =PAYE Tax Knowledge

X_2 =PAYE Tax Commitment

ϵ_i =Error term of the model

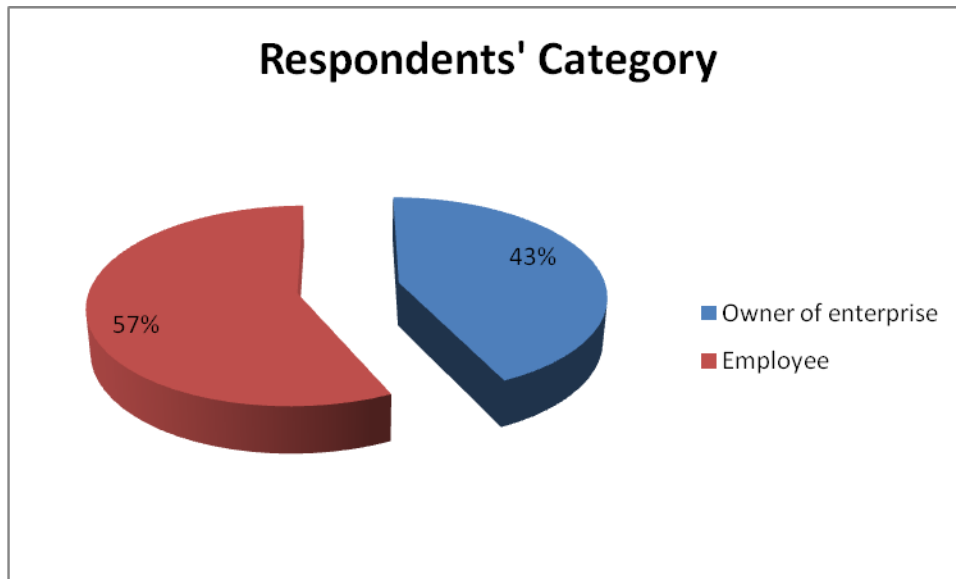
CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents the quantitative analysis of data collected from owners of enterprises as well the finance managers. It gives the findings from the questionnaires and other observations that were encountered during the fieldwork. The data has been analyzed to give clear and vivid findings of the study.

4.2 Demographic Information

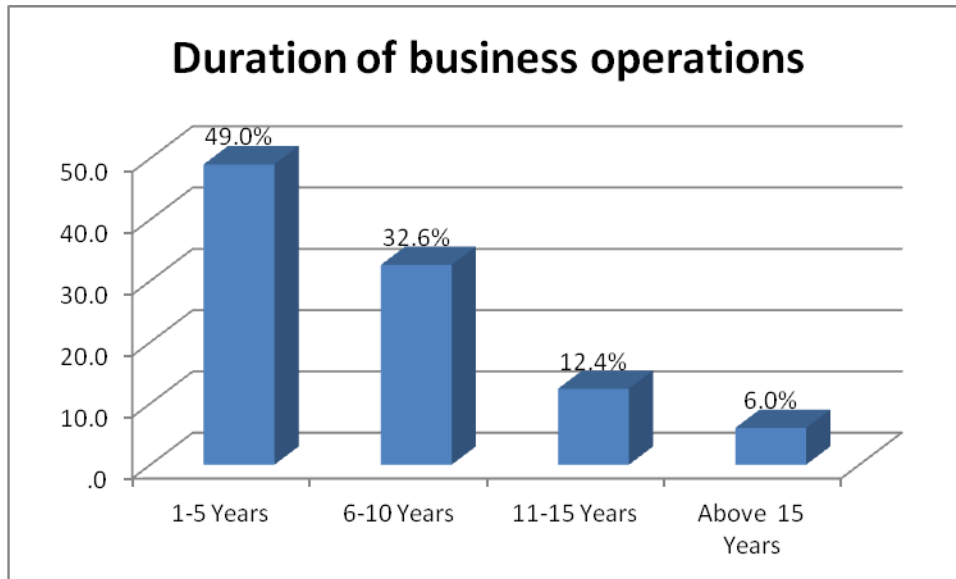
Figure 4.1: Respondents' Category



Source: Author (2014)

The researcher sought to establish the category of the respondents who filled the questionnaires, based on the data presented in figure 4.1, 57% were employees while 43% were the owners of the enterprises. The employees were mainly Finance Managers of the enterprises and therefore the findings imply that the researcher obtained very accurate information since they fully understand issues relating to PAYE tax.

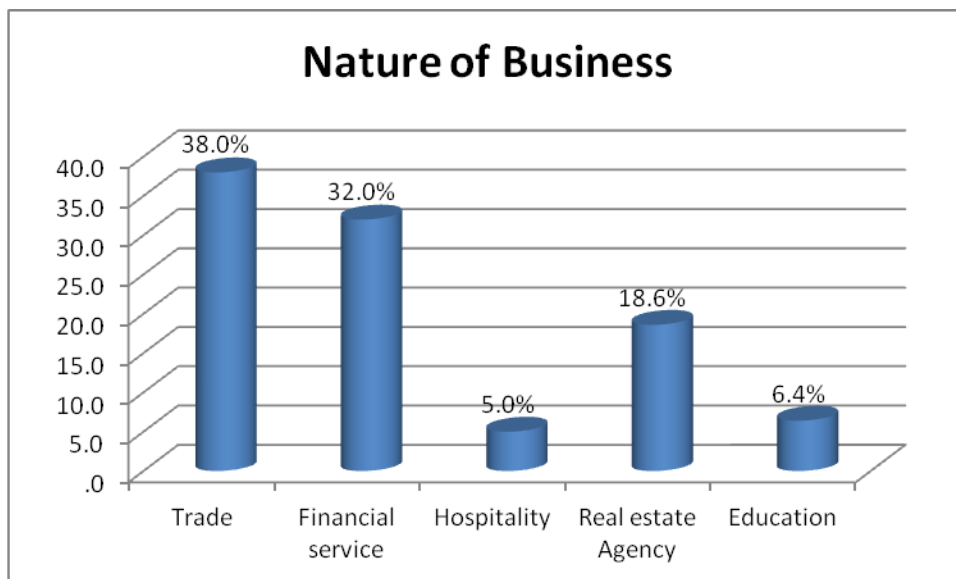
Figure: 4.2: Duration of Business Operations



Source: Author (2014)

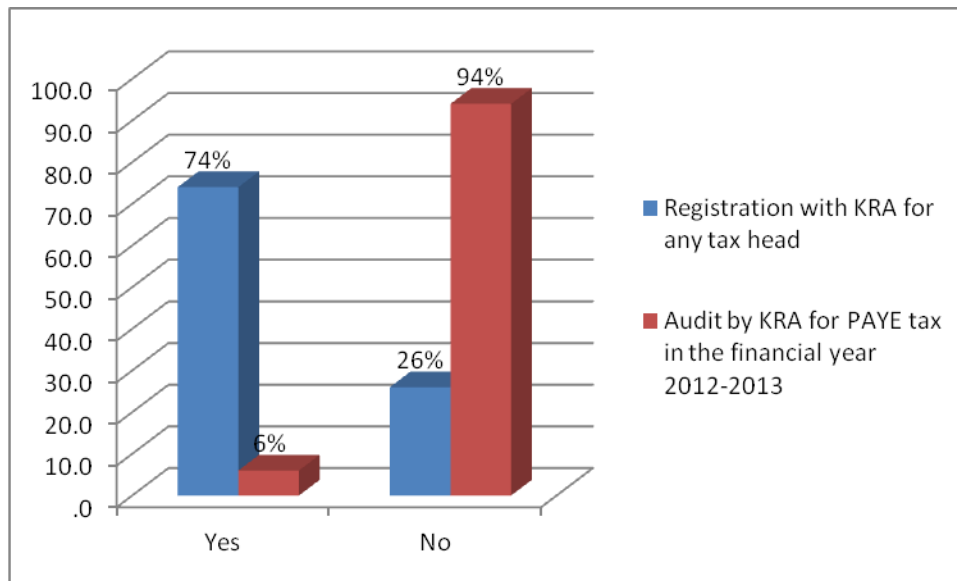
Data on figure 4.2 indicates the duration for which the businesses had been in operation, based on the findings, 49% had been in operation for 1-5 years, 32.6% had operated for 6-10 years while only 6% had operated for over 15 years. The findings imply that most of the enterprises did not have vast experience with PAYE tax.

Figure 4.3: Nature of Business



Source: Author (2014)

Figure 4.4: Tax Head Registration and Audit by KRA



Source: Author (2014)

The researcher further sought to establish whether the enterprises had registered for any tax head and also if they had been audited by KRA for PAYE tax in the financial year 2012-2013, based on the findings presented on figure 4.4, 74% of the enterprises had registered for a Tax head while only 26% had not registered. Regarding PAYE tax audit by KRA, 94% of the respondents reported that they had not been audited by KRA for PAYE tax in the financial year 2012-2013, the findings imply that the enterprises had been complying in remitting PAYE tax after the PAYE tax education.

4.3 PAYE Tax Knowledge, PAYE Tax Commitment and PAYE Tax Compliance

Table 4.1: PAYE Tax Knowledge

<i>PAYE TAX KNOWLEGDE</i>	YES	NO	N
1. You know all the PAYE rules	43(86%)	7(14%)	50
2. PAYE rules are too complicated	13(26%)	37(74%)	50
3.The PAYE audit made us understand the PAYE rules	45(90%)	5(10%)	50
4.You know all taxable employee benefits	41(82%)	9(18%)	50

5. You are aware of all exempted employment benefits	46(92%)	4(8%)	50
6. You know much about double taxation	40(80%)	10(20%)	50
7. You understand all the contents of the employers guide to PAYE	46(92%)	4(8%)	50
8. You know all the penalties relating to PAYE offences.	39(78%)	11(22%)	50

Source: Author (2014)

The researcher sought to determine the tax knowledge of the respondents, based on the data presented on table 4.1, 86% of the respondents reported that they knew all PAYE rules, 90% reported that PAYE audit made them understand the PAYE rules. A greater proportion of the respondents (92%) reported that they were aware of all the exempted employment benefits, while 82% reported that they know all taxable employee benefits. On penalties relating to PAYE offences, 78% of the respondents indicated that they knew all the penalties while only 22% did not know all the penalties. The findings imply that there was adequate tax knowledge among the respondents.

Table 4.2: PAYE Tax Commitment

<i>PAYE TAX COMMITMENT</i>	Mean	Standard Deviation	N
1. I enjoy deducting PAYE from people's salaries	4.512	0.674	50
2. Top management compliment me for being strict with PAYE rules	4.870	1.245	50
3. I do not need to be reminded to follow all PAYE rules	3.542	0.973	50
4. I would find it difficult to make a payment to staff without deducting PAYE	3.785	1.872	50
5. I do not see the difference between deducting	3.945	0.892	50

PAYE and not deducting			
6.If I had a chance I would never deduct PAYE	1.484	0.565	50
7. PAYE calculations takes a lot of my useful time	1.456	0.784	50
8. Most staff compliment me for not deducting every cent	1.492	0.784	50

Source: Author (2014)

To establish the level of tax commitment by the enterprises, the researcher presented eight statements to the respondents relating to tax commitment, the respondents were instructed to respond to the statements on a 5 point Likert scale and indicate the extent they agree with the statements that is: Strongly agree to Strongly disagree. A mean (M) score of 0-1.50 means that the respondents strongly disagreed, between 1.50-2.50 means they disagreed, 2.50-3.50 means the respondents were not sure, 3.50-4.50 means they agreed, and a mean above 4.50 means the respondents strongly agreed. Based on the findings presented on table 4.2, the respondents strongly agreed that: They enjoy deducting PAYE from people’s salaries (Mean=4.512;SD=0.674); and that top management compliment them for being strict with PAYE rules (Mean=4.870;SD=1.245).The respondents agreed that: They do not need to be reminded to follow all PAYE rules (Mean=3.542;SD=0.973); They would find it difficult to make a payment to staff without deducting PAYE(Mean=3.785;SD=0.892) and that they do not see the difference between deducting PAYE and not deducting (Mean=3.945;SD=0.892).The respondents strongly disagreed to the following statements: If I had a chance I would never deduct PAYE (Mean=1.484;SD=0.565); PAYE calculations takes a lot of my useful time (Mean=1.456;SD=0.784) and that Most staff compliment me for not deducting every cent (Mean=1.492;SD=0.784). The findings imply that there was a high level of tax commitment by the Owners and Employees of the enterprises surveyed.

Table 4.3: PAYE Tax Compliance

<i>PAYE TAX COMPLIANCE</i>	Mean	Standard Deviation	N
1. All employee benefits must be taxed	4.604	0.970	50

2. Some salaries and benefits are too low so we don't tax them	4.770	1.035	50
3. Lack of cash to pay makes us remit deductions late	2.542	0.973	50
4. We do not have an outstanding debt with KRA	3.785	1.431	50
5. KRA made us pay a penalty when we delayed to pay	4.648	0.990	50
6. The PAYE audit taught us a bitter lesson we will never want to go through again	4.783	0.845	50
7. No one knows what people earn here	2.456	0.784	50
8. Before the tax audit we would sympathize with employees on tax matters	3.840	0.988	50
9. We have never delayed to pay taxes	3.674	1.034	50
10. KRA has never penalized us as we pay taxes in time	4.543	0.945	50

Source: Author (2014)

To determine the level of tax compliance by the enterprises, the researcher presented eight statements to the respondents relating to tax compliance, the respondents were instructed to respond to the statements on a 5 point Likert scale and indicate the extent they agree with the statements that is: Strongly agree to Strongly disagree. A mean (M) score of 0-1.5 means that the respondents strongly disagreed, between 1.50 to 2.50 means they disagreed, 2.50 to 3.50 means the respondents were not sure, 3.50-4.50 means they agreed, and a mean above 4.50 means the respondents strongly agreed. Based on the findings presented on table 4.2, the respondents strongly agreed that: All employee benefits must be taxed (Mean=4.604;SD=0.970); Some salaries and benefits are too low so we don't tax them (Mean=4.770;SD=1.035); KRA made us pay a penalty when we delayed to pay (Mean=4.648;SD=0.990); The PAYE audit taught as a bitter lesson we will never want to through again (Mean=4.783;SD=0.845); KRA has never penalized us as we pay taxes in time (Mean=4.543;SD=0.945). The respondents on the other hand agreed with the following statements: Before the tax audit we would sympathize with

employees on tax matters (Mean=3.892;SD=0.988) and;We have never delayed to pay taxes (Mean=3.674;SD=1.034).The findings imply that the enterprises were complying.

Table 4.4: Correlation between PAYE Tax Knowledge and PAYE Tax Compliance

Variables	PAYE Tax Knowledge	PAYE Tax Compliance
PAYE Tax Knowledge	1	0
PAYE Tax Compliance	0.97123	1

Source: Author (2014)

From the results in table 4.4, there is a very strong relationship between the PAYE Tax knowledge and PAYE Tax compliance meaning that PAYE Tax knowledge among the enterprise Owners and Finance Managers increases tax compliance by the enterprises since a correlation of 0.97123 was obtained.

Table 4.5: Test Statistics for PAYE Tax Knowledge and PAYE Tax Compliance

Test Statistics	PAYE Tax Knowledge	PAYE Tax Compliance
Chi-square	0.846	0
Degree of freedom	8	10
Asymp.Sig	1.000	1.0

Source: Author (2014)

Also from the results in table 4.5, all the factors in the analysis had expected frequencies of less than 5 with the minimum expected frequency 1.1. Thus all the factors that influence the taxpayers' knowledge of PAYE tax, equally affect the taxpayers' PAYE tax compliance i.e. taxpayers' knowledge on PAYE tax rules encourages PAYE tax compliance in Kenya

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary of the findings reported in Chapter Four. The conclusions of the study are drawn and recommendations made. The chapter also suggests areas for further research.

5.2 Summary of Findings

5.2.1 PAYE Tax Knowledge

The findings revealed that there was adequate knowledge on tax issues among the Owners and Finance Managers of the enterprises. This is because a greater proportion of the respondents (86%) indicated that they knew all PAYE rules an indication that they were well informed about income taxes and the PAYE system, 90% reported that PAYE audit made them understand the PAYE rules. A greater proportion of the respondents (92%) reported that they were aware of all the exempted employment benefits, while 82% reported that they know all taxable employee benefits. On penalties relating to PAYE offences, 78% of the respondents indicated that they knew all the penalties while only 22% did not know all the penalties.

5.2.2 PAYE Tax Commitment

The findings revealed that the respondents showed an adequate level of PAYE tax commitment since majority strongly agreed that they enjoy deducting PAYE from people's salaries (Mean=4.512;SD=0.674); and that top management compliment them for being strict with PAYE rules (Mean=4.870;SD=1.245).The respondents agreed that, they did not need to be reminded to follow all PAYE rules (Mean=3.542;SD=0.973), they would find it difficult to make a payment to staff without deducting PAYE(Mean=3.785;SD=0.892) and that they did not see the difference between deducting PAYE and not deducting (Mean=3.945;SD=0.892). Hence, the findings reveal that increased tax payers knowledge on PAYE Tax and the general understanding the laws and regulations of the tax system and how the PAYE Tax is computed improves the level of PAYE tax commitment in the enterprises. With respect to providing PAYE tax awareness training, it is the duty and responsibility of Kenya Revenue Authority to conduct a series of training to the tax payers especially the entrepreneurs with limited accounting and

finance knowledge to increase the levels of PAYE Tax commitment. The research indicated that a greater proportion of the respondents strongly disagreed that if they had a chance they would never deduct PAYE (Mean=1.484; SD=0.565) and that PAYE calculations takes a lot of their useful time (Mean=1.456;SD=0.784).Therefore, the findings show a high level of commitment among the enterprises sampled to remit PAYE Tax.

5.2.3 PAYE Tax Compliance

Regarding PAYE tax compliance, the findings revealed that the enterprises were complying since a greater proportion of the respondents reported that all employee benefits must be taxed (Mean=4.604;SD=0.970), KRA has never penalized the enterprises as they pay taxes in time (Mean=4.543;SD=0.945) and that KRA made the enterprises pay penalties when they delayed to pay (Mean=4.648;SD=0.990). It was also evident that PAYE tax compliance was also enhanced due to the fact that PAYE audits taught the enterprises bitter lessons that they would never want to go through again (Mean=4.783;SD=0.845)

The findings regarding PAYE tax compliance showed that PAYE tax knowledge is essential in promoting voluntary PAYE tax compliance and therefore it is necessary for the taxpayer to acquire the PAYE tax knowledge which can enable them to make rational PAYE compliance decisions. The PAYE tax knowledge can also facilitate good record keeping in enterprises and therefore minimize the compliance costs such as penalties by KRA as well as enhancing good business reputation.

This study has also revealed that PAYE tax education has an effect on voluntary PAYE tax compliance. In the research, the unit of study was the taxpayer, showing how one characteristic of the taxpayer, may affect his/her compliance behavior, as well as other variables, which are outside the taxpayer, such as the level of PAYE tax rates, the perception of fairness of the taxes, proper management and utilization of government revenue. Thus, further studies on the subject in question will bring new insight and enrich common understanding. There is need to research more on PAYE tax compliance as most of the empirical findings in this area are from developed countries.

The findings revealed that the level of PAYE tax knowledge affects PAYE tax commitment and consequently, PAYE tax compliance. These findings were similar to the findings obtained by Kassipillai (2003), Rasid & Noor (2004), Normalla (2007), Christina, Deborah and Gray (2003). In their studies, they concluded that there was a significant positive relationship between the level of PAYE tax knowledge and PAYE tax compliance. However these findings contradicts the findings obtained by Lin and Carrol (2000), which concluded that there was no significant positive relationship between the level of tax knowledge and tax compliance.

The findings also confirm the change theory which assumes that when a problem exists relating to behavior, there must be modifiable factors that contribute to the problem, one of them being knowledge. Tax education has affected the way the taxpayer makes tax compliance decision. Through taxpayers' education, the taxpayer is aware of the rights, obligations and the procedures of paying taxes, as well as the consequences of non-compliance. The taxpayer can make rational decisions of complying with the tax laws, as he/she is certain of the consequences. Therefore these findings support the application of prospect theory to the tax compliance decisions.

5.3 Conclusion

With regard to providing information relating to compliance requirements to enable and facilitate the determination of the levels of tax compliance and how taxpayers' knowledge influences tax compliance in Kenya, it was found that most taxpayers have complied by taxing all employee benefits and remitting PAYE tax deductions to KRA in time. As a result of PAYE tax knowledge, most of the businesses reported that they remit PAYE tax in time and also keep up to date transaction records and books of accounts and therefore they have never been penalized by KRA. A greater proportion of the enterprises also reported that they filed tax returns in time, a sign that they actually comply with the deadlines given by KRA. On the payment of fines and penalties for overdue taxes, most businesses reported that they had not been penalized by KRA, an indication that the enterprises were actually complying as a result of PAYE tax education. Most of the businesses had never received any audits by tax collectors since it was not deemed necessary, as they had never been suspected of any kind of non-compliance. Thus most taxpayers had never been assessed by KRA in the last two years because of nonpayment of tax or not filling PAYE tax returns.

Some of the reasons for PAYE tax non-compliance were found to be the inability to understand PAYE tax laws i.e. rates of PAYE tax, filing and paying dates and a feeling by business owners and Finance Managers that they are not paying a fair share of PAYE tax. Some of the factors depending on how they are applied that can facilitate PAYE tax compliance include; avoiding of paying tax fines and penalties, the use of informants by KRA i.e. report tax evaders, aggressive enforcement efforts by KRA i.e. ensuring tax audits and prosecutions take place, payment of fines and penalties, high degree of being detected for no-payment of tax, high degree of risk aversion i.e. fear of tax audits, ethics and mobility i.e. a feeling that tax is an obligation and believing in no corruption, Positive government image i.e. government fighting corruption and achieving its tax objectives .

5.4 Recommendations

PAYE tax knowledge is essential in improving PAYE tax compliance and therefore the Kenya Revenue Authority should focus on conducting training to Owners and Finance Managers of enterprises in order to improve their knowledge on PAYE tax. General tax knowledge should also be imparted regularly to update them on any changes on tax obligations or tax laws. Tax training and education should not only focus on the current operating businesses alone but also potential entrepreneurs who should be informed of taxation policies in order to improve the levels of tax compliance among businesses in Kenya.

Majority of potential entrepreneurs have inadequate knowledge on tax accounting since most of them have not been trained on tax issues. This means that they may not go through tax education until such a time when they are in business. For KRA to enhance the level of PAYE tax compliance among the entrepreneurs it is important to impart general tax knowledge at early stages of starting businesses or KRA should organize regular public training for entrepreneurs and Finance Managers on taxation with an emphasis of promoting voluntary PAYE tax compliance. This will improve the levels of PAYE tax compliance by businesses.

5.5 Further Research Areas

Areas of further research that were identified include:

A similar study on the concepts of taxpayers' attitudes towards tax systems, the factors which influence taxpayers' attitudes and the relationship between attitudes and tax compliance behaviour among SMEs which has encountered a lot of debate in every economies.

The researcher recommends a study to be conducted, which will evaluate the above concepts in the other 46 counties in Kenya to improve on the revenue collection so as to build our developing economy.

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APPENDICES

APPENDIX I: RESEARCH QUESTIONNAIRE

Instructions to respondents:

This questionnaire is to be filled in by Owners and Finance Managers of business enterprises operating in Nairobi NCBD.

Dear respondent,

This questionnaire is designed to collect information on “**PAYE TAX KNOWLEDGE, COMMITMENT AND PAYE TAX COMPLIANCE**” the information provided is purely for academic purpose and will be treated with utmost confidentiality.

In order to accomplish this study, you are kindly requested to complete this questionnaire.

Your kind cooperation is highly appreciated.

PART A: DEMOGRAPHIC FACTORS (please tick the appropriate box)

1. Category of respondent

Owner of enterprise

Employee

2. For how long has this business been in existence?

1-5 years 6-10 years 11-15 years Above 15 years

3. What kind of business are you in?

Trade , Financial Service, Hospitality, Real Estate Agency, Education

4. Is your organization registered with KRA for any tax head?

Yes

No

5. Has your organization been audited by KRA for PAYE tax in the financial year 2012-2013?

Yes

No

PART B: PAYE TAX KNOWLEDGE

Please respond by ticking one answer in each line across as to what you know about income taxes and the PAYE system in Kenya

Are the following general assumptions about income taxes in Kenya correct?

	YES	NO
1. You know all the PAYE rules		
2. PAYE rules are too complicated		
3. The PAYE audit made you understand PAYE rules		
4. You know all taxable employee benefits		
5. You are aware of all exempted employment benefits		
6. You know much about double taxation relief		
7. You understand all the contents of the Employers' guide to PAYE		
8. You know all the penalties relating to PAYE offences		

PART C: PAYE TAX COMMITMENT

Please respond by ticking one answer in each line across as to your view about the PAYE system. (1=strongly disagree, 2=disagree, 3=neutral, 4=agree, 5=strongly agree)

1 2 3 4 5

	1	2	3	4	5
1. I enjoy deducting PAYE from peoples' salaries					
2. Top management compliment me for being strict with PAYE rules					
3. I do not need to be reminded to follow all PAYE rules					
4. I would find it difficult to make a payment to staff without deducting PAYE					
5. I do not see the difference between deducting PAYE and not deducting					
6. If I had a chance I would never deduct PAYE					
7. PAYE calculations takes a lot of my useful time					
8. Most staff compliment me for not deducting every cent					

PART D: PAYE TAX COMPLIANCE

Please respond by ticking one answer in each line across on your view about income taxes and the PAYE system. (1=strongly disagree, 2=disagree, 3=neutral, 4=agree, 5= strongly agree)

1 2 3 4 5

	1	2	3	4	5
1. All employee benefits must be taxed					
2. Some salaries and benefits are too low so we don't tax them					
3. Lack of cash to pay makes us remit deductions late					
4. We do not have an outstanding debt with KRA					
5. KRA made us to pay a penalty when we delayed to pay					
6. The PAYE audit taught us a bitter lesson we will never want to go through again					
7. No one knows what people earn here					
8. Before the audit we would sympathize with employees on tax matters but not now					
9. We have never delayed to pay taxes					
10. KRA has never penalized us as we pay taxes in time					

THANK YOU FOR YOUR CO-OPERATION AND TIME