

**EFFECT OF TAX REFORMS ON COMPLIANCE WITH TURNOVER TAX AMONG
SMALL AND MEDIUM ENTERPRISES IN INDUSTRIAL AREA, NAIROBI**

**BY
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DECLARATION

This research project report is my original work and has not been presented for award of a degree in any other university or any other institution of higher learning.

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Despite all this assistance, I accept full responsibility for any flaws in writing this paper. It has been a joy to develop it and I hope it will help in advancing the field of tax administration.

DEDICATION

I dedicate this paper to my lovely wife Betty Wanja and my daughter Cianta Makena; you all stood by me throughout this programme and inspired me immensely.

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ABBREVIATIONS

EFT	Electronic Funds Transfer
ICT	Information Communication Technology
ILO	International Labour Organisation
ITMS	Integrated Tax Management System
ITR	Integrated Tax Register
KIPPRA	Kenya Institute of Public Policy Research and Analysis
KRA	Kenya Revenue Authority
SMEs	Small and Medium Enterprises
TOT	Turnover Tax

ABSTRACT

Turnover tax was introduced in 2008 as simple tax so as to bring small and medium enterprises into tax net. This was to boost collection on revenue, increase tax administration efficiencies and reduce collection costs thus increasing tax compliance in Small and Medium Enterprises sector. Despite reforms that have been undertaken to improve compliance with turnover tax (TOT) lot remains to be done to achieve the desired results that were anticipated when TOT was introduced (KRA, 2015). The main objective of this study was to assess the effects of tax reforms on compliance with turnover tax among small and medium enterprises operating in industrial area, Nairobi City County. This study used descriptive survey research design. The total population was 1240 SMEs registered by the Kenya Revenue Authority. The study used stratified and convenience sampling to sample 15% (186) of total population. The study used questionnaire to collect primary data from the SMEs. Logistic regression analysis was used to assess effects of tax reforms on tax compliance among targeted enterprises. The study found out that tax compliance level among SMES was at 60% while noncompliance was estimated at 40%.The study found out that 86.7% of the SMEs filed their tax returns online while 13.3% of them filed their returns manually at KRA. The study found out that 73.3% had been trained while 26.7 % had not been trained. This study found out that 80% of the SME had been audited by KRA, 13.3% had not been audited whereas 6.7% did not respond. SMEs that had been audited said were penalized and penalties ranged from Kshs 0 to kshs 25,000. The study found that the tax rates in Kenya were high as was reported by 72% of SMEs. Regression and correlation analysis shows in general a high and positive relationship between tax reforms and tax compliance. That is tax reforms including tax rate regime, taxpayers' training and education and online tax filing has positive effects (increases) tax compliance in SMEs sector. The significant at 5 significant level and so we can rely on this to conclude that compliance of turnover tax is appropriate. However, tax penalties and technical support were found not correlated to tax compliance. The study recommends that to have a fully compliance with turnover tax system among SMEs in Kenya, the small traders should be made to understand the tax administration through the turnover tax training and education so that they are encouraged to pay taxes promptly. KRA also need to train taxpayers on how to calculate the tax payments and balancing their accounts afterwards, how to fill in the files/forms while registering and filing for the turnover tax and being taught the benefits that accrues from many businesses complying with the tax payment. In addition, KRA need to lower and simplify tax regime so as to improve tax compliance.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Tax compliance is the willingness of entities to comply with law and administration on taxation without being forced to (Bjork, 2003). Tax authorities should be fair, transparent and accountable in helping the taxpayers' to comply with the tax rules. They should bring to account those who intentionally and knowingly avoided their obligations. Bjork said that improving compliance and reducing non-compliance means more tax collection.

Countries all over the world have been undertaking tax reforms aimed at widening of tax net so as to bring informal sector into tax blanket. World Bank (2013) said that so as to include most of the participants in the Small and Medium Enterprises (SMEs) sector into tax net countries must lower tax rates for this sector. However, businesses engaged in the informal sector have suffered extremely high tax rates resulting to most informal businesses being outside of the tax net. There are two tax compliance theories applicable to this study namely psychology based theories and economics based theories. Psychology theories argue that compliance with the tax obligations is influenced by psychological factors (Trivedi & Shehata, 2010). These theories place major prominence on changing individual beliefs and attitudes towards tax structure thus suggesting that a taxpayer complies even when the likelihood of detection is remote.

Economic Based Theories also referred to as deterrence theory are based on the belief that the most appropriate alternative is to increase compliance incentives or to increase penalties (Feld

and Frey, 2007). He said that in order to enhance compliance, audits and penalties need to be increased in order to address tax non-compliance.

1.1.1 Tax Reforms

Tax reform is a main component of macroeconomic policy. Tax reforms are considered as the most important part of fiscal policy and also in agreement with monetary policy (Holban, 2007). Tax policy depends on its use as special tax preferences and/or as an incentive to support start-up and business growth. The aim of tax reform is to raise revenue effectively in consistence with each country's uniqueness and administrative capacity. Analysing a country's situation before employing any tax reform results to a proper functioning tax system. The objective of tax reforms is to save collection cost while reducing the revenue loss as well as minimal economic disruption, less inequity and reduction in tax burden.

Mostly, tax reform seeks to improve the efficiency and productivity of taxation (Wagacha, 2009). He said that tax reforms can be split into three as follows: custom reforms, VAT and excise duty reforms, and income tax reforms. Cobham (2012) said that in order to achieve the tax reforms it's of great importance to first strengthen the administrative capacity of the tax institution. The strengthening measures that need to be taken include taxpayers' e-registration, e-tax filing, and introduction of stifle tax penalties, taxpayer education and taxpayer services.

1.1.2 Turnover Tax Compliance

Turnover tax is a lump sum direct tax collected by Governments (Parkin, 2006). Turnover tax is worked out by just applying to a taxable turnover a single tax rate (McCluskey, 2012) as opposed

to income tax system that incorporate use of comprehensive rules and procedure that require maintenance of proof on every expenditure. Countries that apply turnover tax use different parameters to determine when the tax need to be assessed (Parkin, 2006).The structure of a turnover tax varies with governments and types of goods taxed. This is intended to keep it affordable for everyone (Cheeseman & Griffiths, 2005).

Tax payers are required to observe and comply with the turnover tax obligations of their country. Key compliance items are declaring income, filing a return and timely paying the tax when due (McCluskey, 2012). Failure to comply with the tax obligations poses a serious challenge to tax authorities as it diminishes the mobilization of resources that governments need to invest in critical areas of social-economic development including health, education and infrastructure development (Cummings, 2007).

1.1.3 Tax Reforms and Tax Compliance

According to Bjork (2003) tax reforms improves compliance and reducing non-compliance means more tax collection. Regulatory and tax burdens mostly fall disproportionately on SMEs due to the limited size and structure (Pope & Abdul-Jabbar, 2008). This makes the tax compliance an important issue for SMEs as they are constrained of resources and relevant skills to comply with tax codes. Also, high costs of compliance results to tax avoidance and tax evasion among SMEs. This inhibits investment by diminishing county competitiveness as a result of poor taxation attractiveness.

Tax non-compliance is failure to fill out and submit a tax return before the deadline; non-submission, failure to state the correct income and expenditure or failure to pay the amount assessed on taxes before the deadline (Kasipillai & Abdul Jabbar, 2006). Studies show that evasion of tax is a common problem (Kasipillai & Abdul Jabbar, 2006). Fagbemi, Uadile & Noah (2010) found tax evasion is more widespread in underdeveloped countries resulting to slow economic growth and socio-economic problems.

1.1.4 Small and Medium Enterprises in Industrial Area, Nairobi

The SMEs differ from country to country, region to region and there is no universal definition. The concept of SMEs is dynamic (Masinde, 2010) and they characterized by innovation, evolution and face many uncertainty. Masinde noted that SMEs are small, family owned, offering primary goods and services and lack both organizational and management structures. Central Bank of Kenya defines SMEs as enterprises with less than 50 employees. However, for tax purposes, KRA (2011) alludes that all business with a turnover of less than Kshs 5 Million qualifies as small and medium enterprises.

In 2008, Kenya introduced turnover tax (TOT) to boost collection on revenue, increase tax administration efficiencies and reduce collection costs in SMEs sector. TOT has a very low rate compared to most taxes calculated on gross income without any deductions (KIPPRA, 2013). TOT is charged at 3% of sales turnover and is submitted on quarterly to tax agency. It is targeted at enterprises with a turnover of between Kshs. 500,000 and Kshs. 5 million per annum. The benefits of TOT include simplified tax procedures, less tax computation, easy filing of tax returns and simple record keeping. All these reduces cost of tax compliance (KRA, 2011).

According to KRA (2015) total revenue collected from the TOT system in 2015 was Kshs. 221 million. This was below target of Kshs. 645 million in 2015. On TOT recruitment of new taxpayers, the performance has been below 50% on average. In year 2008/09, the number of SMEs which were registered with TOT was 10,605 against a target of 18,347. Between July 2009 and March 2015, 2,890 SMEs had registered with the TOT against a target of 6,928. As at mid-2015, only 435 SMEs had adopted the tax system out of a possible 1405 SMEs in Industrial area representing a 31% uptake of TOT (KRA, 2015). This is a problem to the government in its endeavour to ensure that there is sufficient revenue to support its operations (Mwangi, Gachoka & Siagi, 2010). Cobham (2012) argued that a large segment of the informal sector, such as SMEs in Industrial area in Nairobi exhibit minimal tax compliance levels. It is for this reason that researcher undertook to identify the effects of tax reforms on compliance among small and medium enterprises operating in Industrial Area, Nairobi.

1.2 Research Problem

Tax play a major role in the growth of any economy and an increase in tax compliance translates to growth of an economy. Tax reforms improve tax compliance thus improving government ability to mobilize domestic revenues and resources for investment purposes (Karingi, 2005). The question as to why some people pay tax while others do not has raised a lot of concern among economists, governments and tax administrators alike, and would tax reforms enhance tax compliance? There is strongly evidence that suggest that it is far easier to tax the formal sector than the informal, which, by one core definition, is *de facto* outside the tax system (ILO 2000). Thus, there is need to adopt an ideal tax policy so as to ensure voluntary tax compliance. TOT was introduced in Kenya in 2008 so as bring SMEs sector into the tax net. KRA has

undertaken a number of reforms to improve tax compliance among SMEs. Some of the reforms include strengthening administrative capacity of the tax system, taxpayers' e-registration and e-filing, introduction of stifle tax penalties and enhance taxpayer education and taxpayer services (Mwangi, Gachoka & Siagi, 2010).

Previous studies (Karingi,et al.,2005;KIPPRA,2013;Masato,2009; Masinde,2010; Osambo,2009) on tax compliance found that tax reforms indeed enhance tax compliance. However, these studies were general in methodology where they looked at tax compliance in terms of aggregates, not specific to each enterprise. This will address this methodological gap through assessing tax compliance for each enterprise. Introduction of TOT is an affirmative action which was aimed at incorporating the SME sector into national taxation system. However, the performance of TOT has not been satisfactory and TOT revenue has been below average in most months since its inception. Most of SMEs have remained informal due to high cost of compliance with tax system (Dan, 2010). This suggests that turnover tax reforms targeted small and medium enterprises may not have had a positive impact on their compliance. This is the problem that this study sought to address.

Despite reforms that have been undertaken to improve compliance with turnover tax (TOT) lot remains to be done to achieve the desired results that were anticipated when TOT was introduced (KRA, 2015). By mid-2015, only 435 SMEs had adopted the tax system out of a possible 1405 SMEs in Industrial area representing a 31% uptake of TOT (KRA, 2015). The main purpose of this study was to assess the effects of tax reforms implemented by Kenya

Revenue Authority on compliance with turnover tax obligation among SMEs operating in Industrial Area, Nairobi.

1.3 Research Objectives

The main objective was to assess the effects of tax reforms on compliance with turnover tax among small and medium enterprises operating in industrial area, Nairobi County.

1.4 Value of the study

The finding of this study is of great importance to policy makers as is a point of reference as far as assisting in decision making regarding the influence of tax reforms on revenue performance. The government is not able to collect the required taxes from the targeted SMEs due to tax evasion and high tax burden. This raises question on whether tax policies and tax administration reforms influence tax compliance. The facts accruing from this study could benefit the Kenya Revenue Authority in its effort to design suitable tax policies for SMEs. This is because this study provides understanding of compliance behaviour among SMEs.

The research is also useful to the business community as the study uncovers the tax compliance environmental factors and how the conditions can be improved or dealt with. Finally, the research is of importance to scholars and researchers who may require developing and/or advancing their knowledge in the field of tax compliance and administration. It is invaluable to scholars as is a point of reference as far as assisting in decision making regarding the influence of tax reforms on revenue performance.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter outlines the literature relevant to the study. This chapter is important as it reviews literature by updating the study with new information as well as shed light on issues relating to tax reforms and tax compliance. The chapter covers theoretical, empirical and conceptualization framework for the study.

2.2 Theoretical Framework

Theory is a set of interrelated concepts, definitions and principles that describe a phenomena by clearly identifying relations among variables with the purpose of predicting the Phenomena. This study borrows from two main tax compliance theories which are economic and psychological theories.

2.2.1 Deterrence Theory

Deterrence theory by Trivedi and Shehata (2005) argue that taxpayers are amoral utility maximizers. Tax payers are guided by economic motives for example profit maximization and probability of being detected. According to deterrence theory, there is a need to increase audits and impose penalties for non-compliance to enhance taxpayers' compliance (Trivedi and Shehata, 2005).

Deterrence theory stems from the classical taxation theory advanced by Adam Smith. Adam Smith defined a taxation system and indicated four main taxation principles namely determination, equity, convenience and thrift of taxation administration. These principals are

main conditions for tax formation. Later taxation work has been advanced by Ricardo, Mills, and Petty (MBA Knowledge Base, 2010).

2.2.2 Theory of Optimal Taxation

Optimal Taxation Theory by Mankiw, et al.,(2009) urges that best tax system adopted should maximize the social welfare function subject to a given set limits. The theory also posits that the government's objective is to increase revenue collection while minimizing the cost associated with the tax system.

Taxation studies which are based on optimal taxation treats tax payers as a utilitarian; i.e., taxpayer welfare function comprises of the individuals utilities in the society. The studies use a social welfare function that is a nonlinear function of individual utilities (Mankiw, Weinzierl & Yagan, 2009).

2.2.3 Psychological Theory

Psychology theory by Mocetti (2004) urges that the tax obligations are complied with due to the influence of psychological factors. The theory considers taxpayers' ethics and morals as key among other factors. Psychology theory emphasises on changing taxpayers' attitudes towards tax systems to improve on tax compliance while the economic theories lay emphasize on increasing audits and imposing penalties to deter non-compliance. The theory indicate that taxpayers comply even when the likelihood of detection is minimal. Tax morale is termed as the individual factor that motivates a person to comply with tax obligations. As a determinant of tax behaviour, tax morals aim to explain how and why a tax payer morality influences his or her tax behaviour.

Tax evasion can be attributed to the tax morale (Mocetti, 2004). Tax payers would be inclined to evade tax when the communities in which they live or operate disapprove of tax evasion. Tax payers are most likely to conform to tax obligation requirements if their friends, relatives and acquaintances comply with these obligations. Also tax payers will evade taxes if they feel that other people are getting away with tax evasion. In other words, if a society tolerates tax evasion, such a society would encourage tax evasion.

Cummings (2007) supports the theory in this study where he said taxpayers can feel morally justified in evading taxes if they feel that the quality of public goods and services are unsatisfactory. In most economies, tax evasion rate is low when the provision of public goods and services is satisfactory. Taxpayers will end up complying with their tax obligations if they feel that their government is honest, democratic and participatory and also if the taxpayers feel they play a meaningful role in governance.

2.2.4 The Allingham and Sandmo Theory

Allingham and Sandmo (1972) tax compliance theory known as Allingham and Sandmo theory argues that the government deters tax evasion through a sanction arrangement and audits. Taxpayer will decide to violate the fiscal laws and evade his or her tax obligations when he or she perceives that the cost of evading tax is too low, believing that he or she is unlikely to be detected or audited. Taxpayers would also evade tax when he or she perceives the cost of compliance is high. Tax systems and procedures that are involving and cumbersome tend to encourage tax evasion. Taxpayers who feel that tax rate is high and punitive will evade tax. There is a negative correlation between evasion of tax, the likelihood of detection, the magnitude

of punishment and high transactional costs associated with tax laws. Tax evasion in which a rational and a moral taxpayer has to maximize his or her expected utility mostly depends on the level of income.

2.3 Determinants of Tax Compliance

2.3.1 Taxpayers' e-Registration and e-Filing

A good information system collects and processes tax information from taxpayers Mookherjee (1997). With good ICT support taxpayers can pay taxes online or through electronic fund transfer using bank infrastructure. From a business point of view, an information system creates an economic benefit for organization and management by offering solution to challenges posed by the environment. The information system is one of various interrelated value-adding activities for gathering, transforming and passing information to enhance decision making and improve organizational performance thus increasing profitability of the firm.

2.3.2 Taxpayer Education and Tax Services

The role of taxes in the development and functioning of the economy is not well understood by the taxpayer. Likewise, tax compliance requirements such as filling out many different tax forms may be hard to be understood by some taxpayers. Therefore, through taxpayer education and other relevant services, taxpayers ought to be advised and educated about the tax system in order to comply with it. Such strategies have been adopted for example by the Rwandan Revenue Authority (Kasipillai, 2005).

2.3.3 Technical Support

Taxpayer's technical support is an effective strategy to strengthen enforcement of tax compliance. Such strategies include organisational reforms such as decentralisation, establishing taxpayers' support desk and Large Taxpayer Units as well as enhancing capacity development through specialised training in filing of returns, tax estimation and self-assessments among others (Brautigam et al., 2008). This approach aim at providing technical support to taxpayers so as to improve their compliance with tax obligations.

2.3.4 Tax Penalties

A proper functioning tax investigation body is critical for detection of errors, fraud and prosecution of tax fraud cases. The tax administrations are deficient of capacities decreasing their ability to prevent and detect fraud creating a loophole for taxpayers to make informed decision of whether to evade tax or not. In addition, the tax penalties are important requirement for any tax enforcement strategy. For example, the essence and magnitude of penalties imposed after detection of tax fraud is directly related to the level of tax compliance. (Fishlow & Friedman, 1994).

2.3.5 Use of Simple Tax Regimes

According to IMF (1988) to improve SME tax compliance some of the strategies that have been suggested are use of simple rate which is applied to business turnover rather than profit that would require rigorous book keeping. For tax administration, an enterprise will be required to only maintain sales receipts.

2.4 Empirical Literature

Everest-Philips (2008) found that the costs that are incurred by a taxpayer to gather adequate information, filling out and submission of tax forms can be another reason for tax fraud and avoidance. Everest-Philips (2008) indicates that there is a huge variance in terms of time required in preparation and payments of taxes among different countries. In high income OECD countries preparation and payment of taxes takes an average of 210 hours, while it takes Vietnam and Brazil 1080 hours and 2600 hours respectively. Everest-Philips (2008) also describes a situation found in Yemen as worrying as there is more than 1500 different taxes, fees and licenses of different tax bases at varying rates. The situation led to businesses incurring huge cost in complying with the administrative requirements and less on the actual tax burden. Therefore, in such conditions there is a high chance of non-compliance due to the high compliance costs involved.

According to Palil (2010) taxpayers' education and awareness on taxes plays a pertinent role in determination of taxpayers' compliance behaviour. He suggested an adoption of an effective continuous education and monitoring programmes to ensure the taxpayers have a reasonable knowledge and understanding of tax issues. This situation must spearheaded by tax authorities by creating awareness and changing attitude of taxpayers because for tax education to be effective it depends on honesty acceptance and readiness of taxpayers.

According to Christian and Jaramillo (2004) apart from encouraging voluntary tax compliance, governments need to take necessary steps that reduce compliance costs incurred in fulfilling taxpayers' tax liabilities especially in underdeveloped countries. Many revenue authorities have

concentrated on customer service which gives thought to the developing awareness of the obligation to render a standard service to the taxpayers and become responsive to the general public. For instance, to adopt measures that simplify the payment of taxes and tax administration process to be effective; reducing the number of different tax forms the taxpayers has to fill out is critical.

Osambo (2009) found that nature of business is the main obstacle which hinders government from ensuring that the SMEs are brought into tax net. Mistrust and weak structural co-operation between SMEs and government is another factor that makes it hard to tax the informal sector. Atawodi and Ojeka (2012) in their study on factors that affect tax compliance among SMEs in Nigeria. They found out that tax rate is the main challenge facing SMEs. The high tax rate mostly aid non-compliance and affect the growth of SMEs as most tend to stagnate in the informal sector. The findings agrees with another study carried out in Ghana by Carroll (2011), who found out that the amount of taxes paid had an adverse effect on the wellbeing of taxpayers. The respondents reported a decrease in after tax profits after paying taxes and some felt their willingness and ability to cater for their families was adversely affected by the amount of tax paid.

According to Mookherjee (1997) computerization has a major effect on compliance of tax payers. ICT in tax administration assist in mitigating problems associated in monitoring and controlling revenue collection. Computerization makes it hard for taxpayers to tamper with tax records. However, sometime taxpayers evading tax pay low-level officials to make their

returns disappear physically so as to avoid detection. This problem can be prevented through strict computerization.

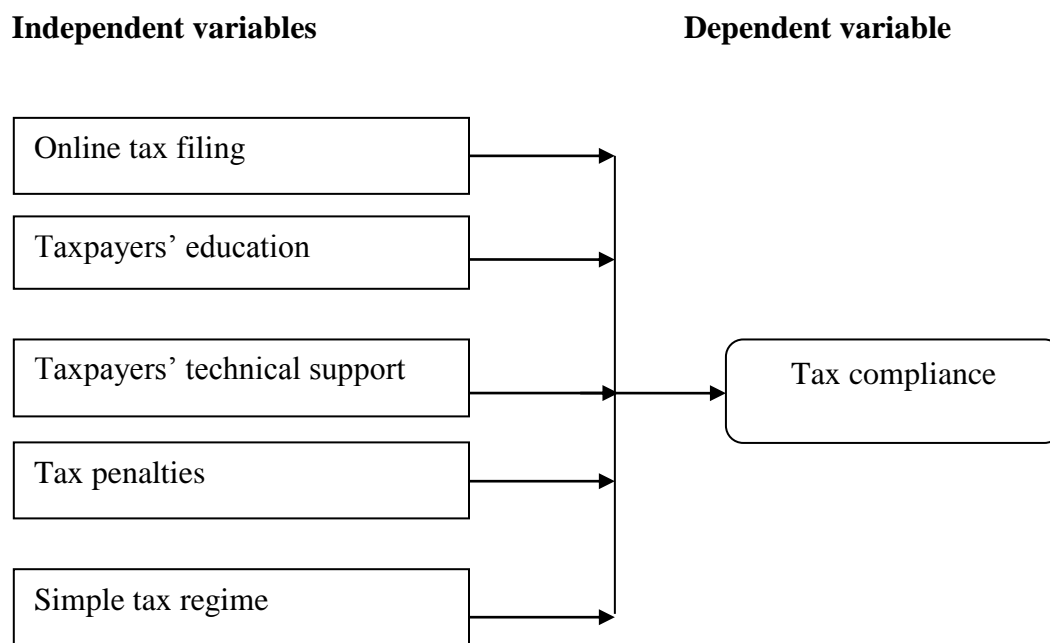
Karingi et al. (2005) argues that a proper tax system design must ensure easy revenue collection and simplified tax administration. Tax administration encompasses the following: proving of tax liabilities established on existing tax laws; tax assessment to determine if there are tax liabilities; and collection, prosecution and penalty sanctions on tax. Fishlow and Friedman (1994) argue that the degree and nature of penalties levied after detection of tax evasion has a direct link to level of tax compliance. As a result, enactment of complicated tax laws and frequent tax code changes confuse both the tax administrators and taxpayers. This provides an opportunity for avoiding payment of taxes (Mo, 2003). To reduce tax evasion and avoidance, strategies need to be founded on intensive analysis of the present situation and the different forms of tax evasion and avoidance mostly used. (Brautigam et al., 2008). The probability of detecting and prosecuting tax evaders depend critically on integrity of data available (Christian and Jaramillo, 2004). Hence, they said measures taken to address tax evasion and avoidance relates on the degree of quality of data available to tax administration officers.

2.5 Conceptual Framework

The conceptual framework is created to demonstrate relationships between the tax reforms and tax compliance with turnover tax among small and medium enterprises operating in industrial area, Nairobi City County. Tax compliance with tax is the dependent variable which is a binary variable taking a value 1 if an SME is paying and filing tax return on turnover tax and 0 if an SME is not paying and filing tax return. Tax reforms is independent variable measured by e-tax

= online tax filing (measured by SMEs filing their return online), ted = taxpayers' education (measured by No. of SMEs who have been trained from KRA), tpn = tax penalties (measured by No. of SMEs who have been penalized and amount of penalty paid) and ts = technical support (measured by No of SMEs who have received customers care support) and tr = simple tax regime (measured by opinion of SMEs on adequacy of the tax rate). The relationship between the dependent variable and independent variables is show in figure 2.1 below;

Figure 2.1: Conceptual Framework



2.6 Summary of Literature Review

There is extensive literature exploring tax reforms and how the reforms influence compliance among taxpayers. Studies have shown that the SMEs under the normal system of taxation face several compliance requirements; higher cost of compliance and higher tax rates (Masato, 2009;

Kasipillai & Abdul Jabbar, 2006; Fagbemi, Uadile & Noah, 2010). Reducing compliance costs may increase the SMEs profit margin and hence more tax revenue. Simplified tax reforms increases the level of tax compliance. (Vasak, 2008). These studies reported that tax policies can be formulated to enhance voluntary compliance and growth of SMEs indirectly. However, despite establishing turnover tax regimes for SMEs its performance has been inadequate because of asymmetrical tax enforcement strategies which breed involuntary compliance (International Tax Dialogue, 2007).

However, there exists little empirical literature on how measures undertaken contribute to compliances among SMEs. This is knowledge gap this study aim to fill. The study will therefore examine the effects of tax reforms on tax compliance for SMEs operating in Industrial Area. The study sought to assess the effects of e-tax registration, e-filing, introduction of non-compliance penalties, taxpayers' education and training, technical support and turnover tax regime on tax compliance among SMEs in industrial area, Nairobi.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methodology used to carry out this study. The research methodology outlines how the researcher assessed the effect of tax reforms on compliance with turnover tax among small and medium enterprises in industrial area, Nairobi. The chapter outlines the research design, target population, sample size, data collection and data analysis.

3.2 Research Design

According to Kothari (2010) study design is a plan for collecting and utilizing data so that desired information can be obtained with sufficient precision or so that a hypothesis can be tested properly. This study used descriptive survey research design. In this study, descriptive research survey design attempted to examine the effect of tax reforms on turnover tax compliance among SMEs in Industrial Area, Nairobi. Descriptive study describes the existing conditions and attitudes through observation and interpretation techniques (Chandran, 2004).

3.3 Population of the Study

The study population is the full set of cases from which a sample is taken (Mugenda and Mugenda, 2003). The study targeted SMEs operating their business in Nairobi's Industrial area. The total population was all SMEs registered by the Kenya Revenue Authority. As at mid-2015, they were 1240 SMEs in industrial area who were registered by KRA who make the total population of the study.

3.4 Sample Design

The sample size is the part of the target population that was selected by the researcher for the purpose of data collection. The study adopted multistage sampling design. First, the population was stratified into two strata namely small and medium as shown in table 3.1 below. Then using convenience sampling a sample size of 15% (186) of total population was obtained. Lastly, a random sampling procedure was employed to select the units of analysis from the two strata. The sampling frame was June 2016 SMEs register obtained from Domestic Tax Department, KRA.

Table 3.1: Sampling Frame and Sample Size

Strata	Population	Sample
Medium	820	123
Small	420	63
Total	1240	186

Source: KRA, Domestic Tax Department, June 2016

3.5 Data Collection Procedures

The study used both primary and secondary data. Primary data is defined as first-hand information received from a respondent. On the other hand secondary data is the type of data that has been already collected, stored and processed statistically. The study used questionnaire to collect primary data from the SMEs. Questionnaire is a sequence of questions on research problem about which the respondents' opinions are sought. Questionnaire was used as it

provides data standardization format and generalized information adoption amongst any population. Questionnaire was administered through drop and pick, and emails, as per preference of each respondent. Secondary data was collected from tax returns filed by SMEs. SMEs tax returns were obtained from domestic tax department in KRA. Secondary data was collected from tax returns include frequency of tax filing, tax revenue amount declared and paid, number of tax filing defaulters and penalties charged and paid. The available data was for a period 2011-2015. Before undertaking to collect data from the field, researcher obtained consent from the respondents. They were furnished with letters explaining research objectives and requesting them to participate in research so as to solicit their informed consent. Thereafter the questionnaires were delivered and confidentiality of respondents was maintained. Consent was sought from Commissioner of Domestic Tax Department in KRA so to allow collection of secondary data from the department.

3.6 Data Analysis

Qualitative data was analysed through content analysis while descriptive statistics such as means, frequency distributions, percentages, standard deviations and cross tabulations was used to describe the data. The findings were presented through tables and charts. This was attained through statistical tools such as frequency distributions, means, modes, percentages, and standard deviations, simple and cross tabulations.

Logistic regression analysis and Pearson Correlations were used to test relationship between the variables. The study used a logistic regression model specified as follows;

$$Comp = \alpha + \beta_1 e\text{-tax} + \beta_2 ted + \beta_3 tpn + \beta_4 ts + \beta_5 tre + ei$$

Where:

Comp = 1 if tax compliance and 0 if non tax compliance

e-tax = Online tax filing

ted = taxpayers' education

tpn = tax penalties

ts = technical support

tr = Simple tax regime

Comp = Compliance with tax is the dependent variable. This was measured by binary variable where Yes = 1 if an SME is paying and filing tax return on turnover tax and No = 0 if an SME is not paying and filing tax return. Tax reforms is independent variable measured by e-tax = online tax filing (measured by SMEs filing their return online), ted = taxpayers' education (measured by No. of SMEs who have been trained from KRA), tpn = tax penalties (measured by No. of SMEs who have been penalized and amount of penalty paid) and ts = technical support (measured by No of SMEs who have received customers care support) and tr = simple tax regime (measured by opinion of SMEs on adequacy of the tax rate). The regression model was used to predict the values of α and β_i , which explains the association between the independent variables and dependent variable. The coefficient of determination R^2 will be used to explain the relationship between the dependent and independent variable. The T-test to assess the significance of individual betas and standard b-coefficients to explain the relative predictive power of independent variables. SPSS, version 23 was used to analyse the data.

CHAPTER FOUR: DATA ANALYSIS AND RESULTS

4.1 Introduction

This chapter presents results of the data analysis and interpretation of findings on the data collected from targeted SMEs in Nairobi's Industrial area. This study targeted 186 SMEs and therefore all of them were contacted for purposes of data collection. Out of the 186 questionnaires issued, 150 were returned, giving an 80% response rate, as shown in Table 4.1.

Table 4.1: Response Rate

Name of the organization	Target	Response	Response rate
SMEs	186	150	80%

Source: Author (2016)

4.2 Turnover Tax Revenues

Turnover tax was introduced in 2007 in Kenya. The revenue collection data from the Kenya Revenue Authority shows that KSh 28 million was collected in 2007/2008, Ksh 136 million in 2012/2013 an Ksh 57 million in 2014/2015. These results are shown below.

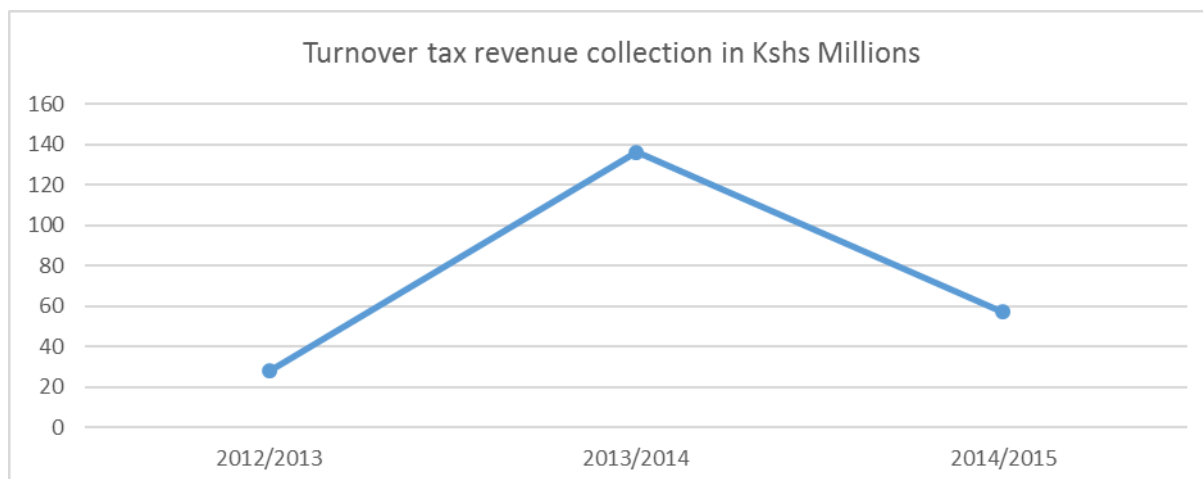
Table 4.2: Revenue Collected from Turnover Tax

Year	Revenue (in millions of Sh)	Growth rate (%)
2012/2013	28	-
2013/2014	136	385.7%
2014/2015	57	-58.1%
Average	73.7	163.8%

Source: Author (2016)

Figure 4.1 indicates that the turnover tax revenues grew by 385% in the second year of introduction and then fell by 58% in the third year. It is worthwhile to note that the tax revenues have fallen short of the targets over the years.

Figure 4.1: Revenue Growth of Turnover Tax



Source: Author (2016)

4.3 Tax Compliance

To measure the compliance with turnover tax, the SMEs were asked to indicate if they pay tax and file returns. The study found out that 60% percent said they pay and file returns, 26.7% said they don't pay and file returns while 13.3 percent did not know if the SME pay and file returns as shown in table 4.3 below;

Table 4.3: Revenue Growth of Turnover Tax

Compliance status	Frequency	Percent
Yes	90	60%
No	40	26.7%
Don't know	20	13.3%
Total	150	100%

Source: Author (2016)

The respondents were further asked to rank their current turnover tax system in terms of complexity. The results are shown in table 4.4.

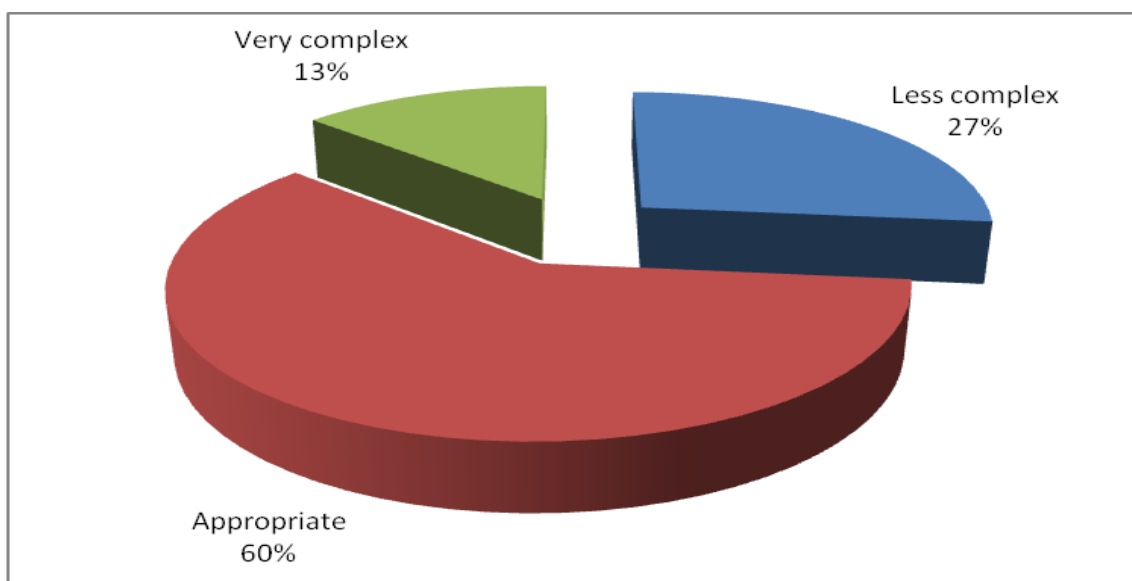
Table 4.4: Complexity Level of Turnover Tax System

	Frequency	Percent
Less complex	50	26.7
Appropriate	85	60.0
Very complex	15	13.3
Total	150	100.0

Source: Author (2016)

The study found out that 26.7 percent were less complex, 60 percent were appropriate, 13.3 percent were found to be very complex. This means that most of the respondents found the tax system as being appropriate. These results are also shown in Figure 4.2.

Figure 4.2: Level of Complexity of Turnover Tax System



Source: Author (2016)

4.4 Findings on Tax Reforms

4.1 Online Tax Filing

The respondents were asked to indicate how they file their turnover tax returns. The results are shown in table 4.5.

Table 4.5: Filing of Tax Returns

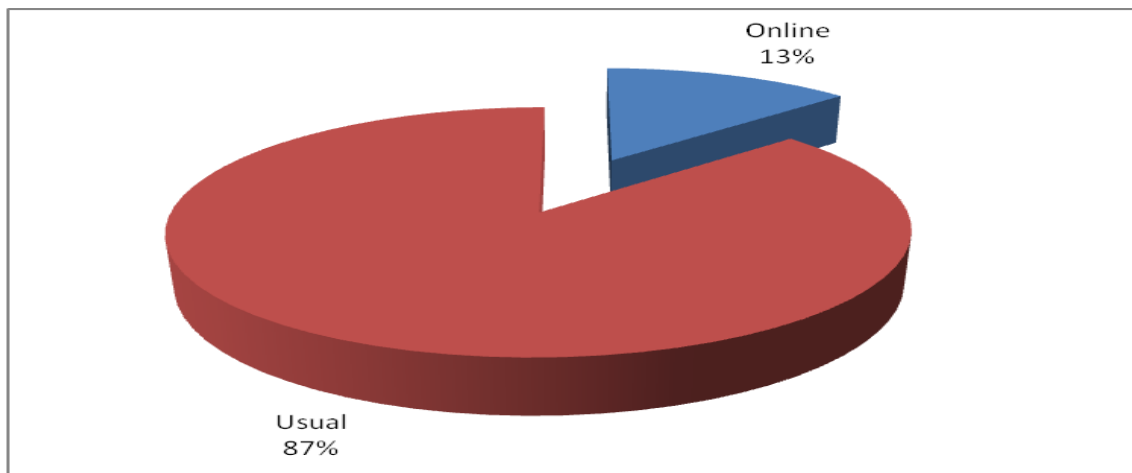
	Frequency	Percent
Online	130	86.7
Manual	20	13.3
Total	150	100.0

Source: Author (2012)

The study found out that 86.7% of the companies filed their tax returns online while 13.3% of them filed their returns manually at KRA. Thus the majority still use the usual ways and have

not embraced the use of technology in filing their turnover tax returns. These results are also shown in Figure 4.3.

Figure 4.3: Filing of Tax Returns



Source: Author (2016)

The study further asked the respondents to state how frequently they filed their turnover tax returns. The results are shown in table 4.6.

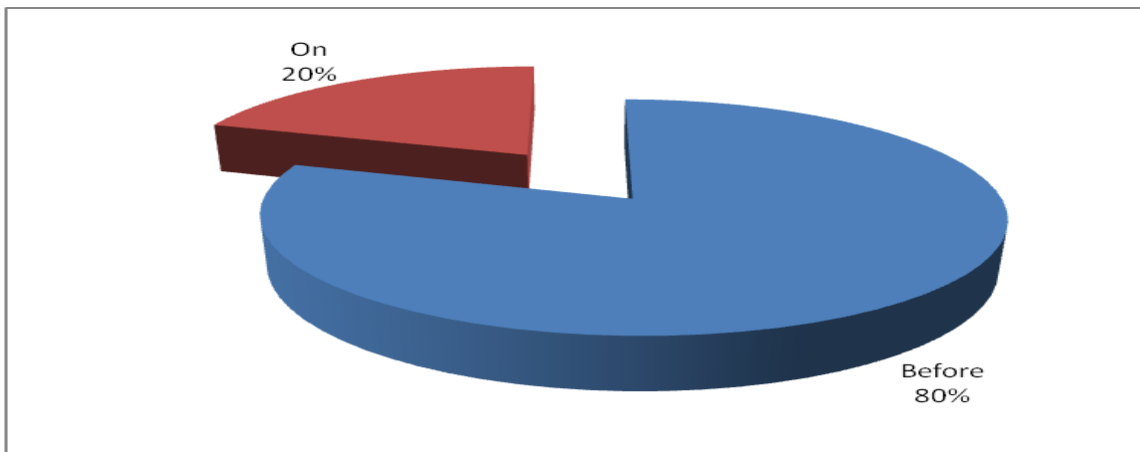
Table 4.6: Frequency of Turnover Tax Return Filing

	Frequency	Percent
Before	12	80.0
On	3	20.0
Total	15	100.0

Source: Author (2016)

A study on the frequency of how the companies filed their tax returns found out that 80 percent of them filed their returns before due date while 20 percent of the companies filed theirs on the due date. Thus most of the taxpayers filed their returns before the due dates. These results are also presented in Figure 4.4.

Figure 4.4: Frequency of Turnover Tax Return Filing



Source: Author (2016)

4.4.2 Taxpayers' Training and Education

The respondents were asked whether their employees had been trained by the Kenya Revenue Authority or their respective auditors on filing of turnover tax returns. The results are shown in table 4.7.

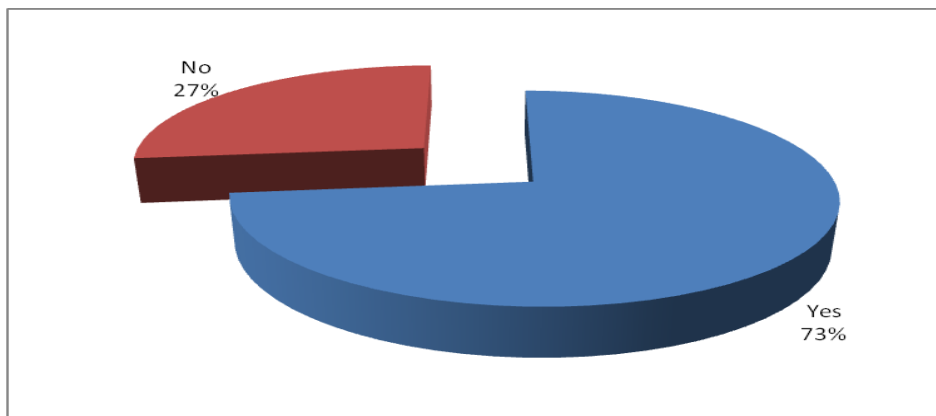
Table 4.7: Employee Training on Turnover Tax Return Filing

	Frequency	Percent
Yes	110	73.3
No	40	26.7
Total	150	100.0

Source: Author (2016)

The study found out that 73.3 percent had been trained while 26.7 had not been trained. The results therefore show that most of the employees of these companies had been trained on how to do the turnover tax returns. These results are also presented in Figure 4.5.

Figure 4.5: Employee Training on Turnover Tax Return Filing



Source: Author (2012)

4.4.3 Trend of Turnover Tax Penalties

This found out that 80 percent of the SME had been audited by KRA, 13.3 percent had not been audited whereas 6.7 percent did not respond. The result of the study is tabulated in table 4.8 below:

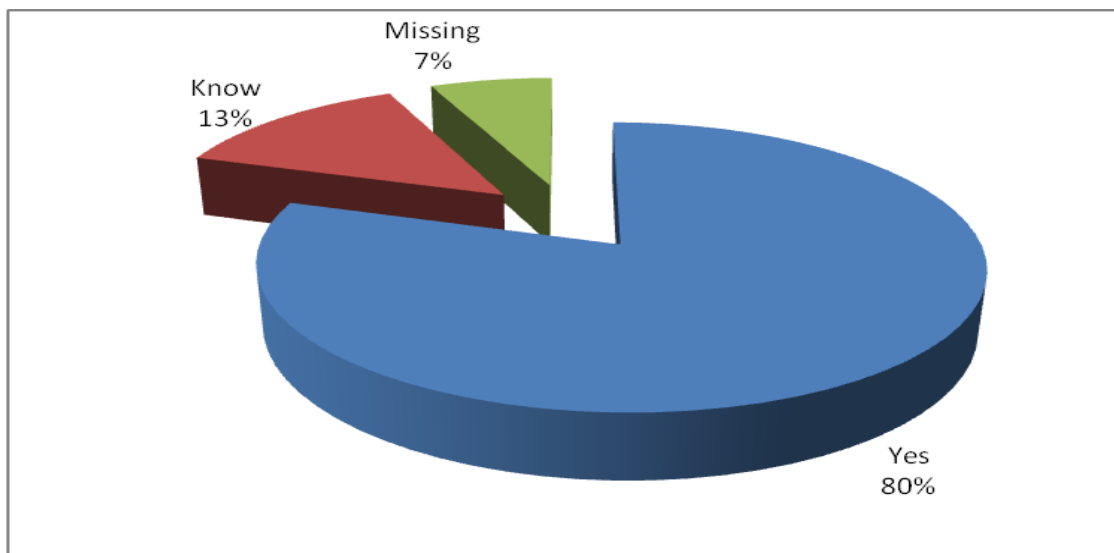
Table 4.8: No of SMEs Audited by KRA

	Frequency	Percent
Yes	124	80.0
Know	16	13.3
Missing	10	6.7
Total	150	100.0

Source: Author (2016)

These results are also presented in Figure 4.6.

Figure 4.6: Percentage of SMEs Audited by KRA

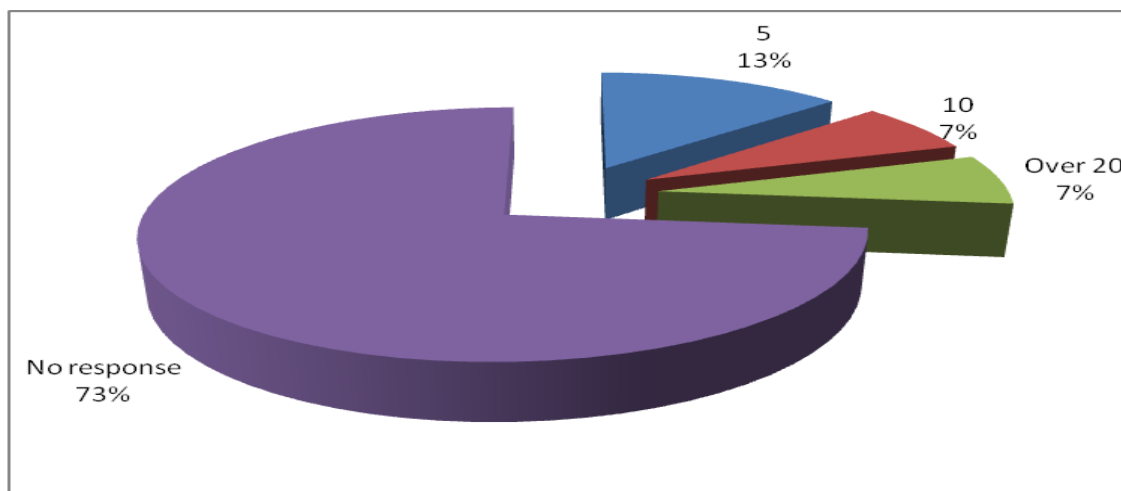


Source: Author (2016)

Those companies that had been audited were asked the amount of penalties that had been raised. The study found out that the penalties ranged from Kshs 0 to Ksh 25,000.

The respondents were asked the percentage of the penalty raised compared to the principal tax. 13.3 percent of them had 5 percent of the penalty raised, 6.7 percent had 10 percent of the penalty raised, another 6.7 percent had more than 20 percent of the penalty raised while 73.3 percent of them gave no response. These results are also presented in Figure 4.7.

Figure 4.7: Percentage of Penalty Raised



Source: Author (2016)

4.4.5 Taxpayer's Technical Support

The study intended to determine whether the perceived technical support offered by KRA influenced the respondents to comply with tax. The findings established that most of the respondent claimed that the KRA's Taxpayers helpdesk has been able to provide sufficient support in solving our tax compliance (mean = 2.91), others were satisfied with the current helpdesk at KRA in that it provide assistance when they encounter tax compliance difficulties (mean =2.88) and a few respondents claimed that they KRA has invested in a trained technical team to provide SME with necessary tax compliance technical support (mean = 2.45). These results established that the technical support offered by KRA is essential to influence the tax compliance. The findings are indicated on Table 4.9.

Table 4.9: Opinion on Influence of Technical Support on Tax Compliance

Tax payer Education and Training	Strongly Disagree	Disagree	Agree	Strongly Agree	Mean	Rank
I am aware that there is a helpdesk at KRA that I can approach to provide assistance when I encounter tax compliance difficulties.	12%	28%	23%	12%	2.88	2
KRA's Taxpayers helpdesk has been able to provide sufficient support in solving our tax compliance difficulties.	7%	27%	21%	9%	2.91	1
KRA has invested in a trained technical team to provide SME with necessary tax compliance technical support.	28%	24%	12%	7%	2.45	3

Source: Author (2016)

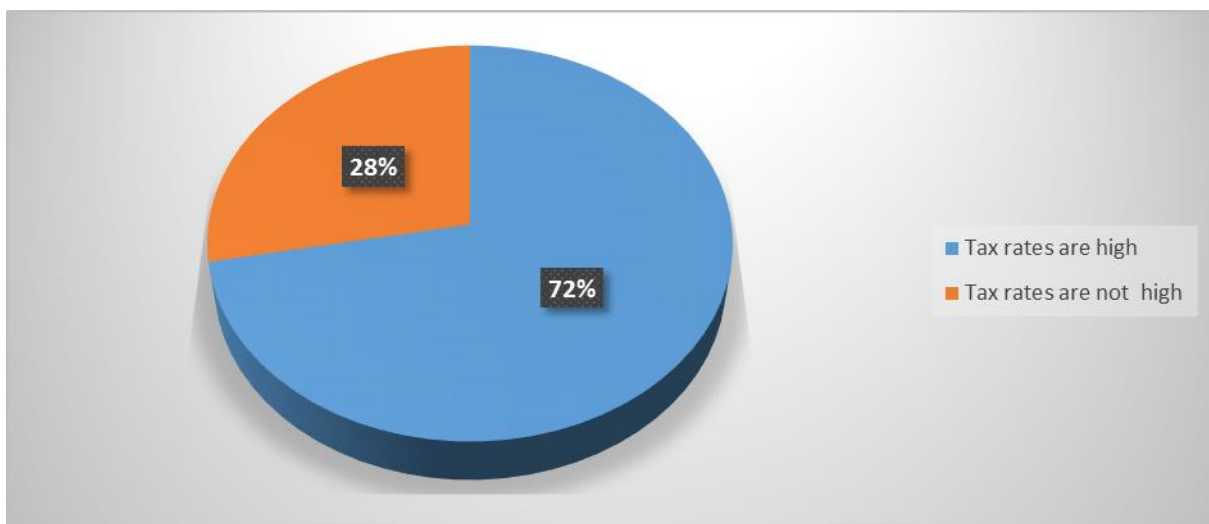
4.4.6 Tax Regime/Rates

It is generally believed that a high tax rate is the main cause of tax evasion. Incentives to evade tax depend on the marginal rates of taxation because these govern the gains from evasion as a percent of the sum evaded (Kaldor, 1956). The researcher sought to find out the extent to which tax rates in Kenya explain tax compliance among SMEs.

4.4.6.1 Respondents Views on Tax Rates

The researcher enquired as to whether the SMEs found the tax rates in Kenya high. 72% of SMEs think that the tax rates in Kenya are high while those who do not think that it is high were a minority and accounted for only 28%. It can therefore be deduced that to the majority of SMEs find the tax rates high.

Figure 4.8: SMEs Opinion on Tax Rates



Source: Author (2016)

4.4.6.1 Tax Amount Payable as a Factor Influencing SMEs Tax Compliance

The researcher sought to determine whether the SMEs compliance is influenced by the amount of tax to be paid. 61% of SMEs studied felt that the amount of tax payable does influence their level of tax compliance while remainder 39% felt the amount payable does not influence tax compliance. The study can therefore conclude that to the majority of the SMEs, their level of compliance is greatly influenced by the tax amount due to KRA.

Table 4.10: Respondents View of how Tax Rates Influence Tax Compliance

Statement	Frequency	Percent
Amount of tax payable does influence their level of tax compliance	92	61%
Amount of tax payable does not influence their level of tax compliance	58	39%
Total	150	100%

Source: Author (2016)

4.5 Description Statistics of Variables

Table 4.11 gives the summary of the descriptive statistics of the data used in this study. Most variables except the tax penalties paid were dummy variables taking value of 1 and 0 as follows: tax compliance (paying and filing return 1 = YES, 0 =No); technical support KRA (YES = 1 for influences the tax compliance and 0=No for don't influence compliance); tax regime/rate (YES = 1 for influences the tax compliance and 0=No for don't influence compliance); tax training and education (YES = 1 for influences the tax compliance and 0=No for don't influence compliance) and online tax filing (YES = 1 for influences the tax compliance and 0=No for don't influence compliance). The minimum value for dummy variables was 0 while maximum value was 1. Tax penalties paid had a minimum value of Kshs 0 and maximum value of Kshs 25,000. Kurtosis put simply is the sharpness of a frequency distribution and should be within -3 and +3 range when data is normally distributed. Tax compliance, tax penalties paid, technical support, tax regime/rate and tax training and education had a normally distribution while online tax filing exhibited non normal distribution. The descriptive statistics do not give guide on appropriate equations likely to yield best results. Therefore, there is need for use alternative quantitative analysis methods such as Correlation Matrix.

Table 4.11: Description Statistics of Variables

	Tax compliance (paying and filing return 1 = YES, 0 =NO	Tax penalties paid (in ksh '00)	Technical support KRA (YES = 1 for influences the tax compliance and 0=No for don't influence compliance)	Tax regime/rate (YES = 1 for influences the tax compliance and 0=No for don't influence compliance)	Tax training and education (YES = 1 for influences the tax compliance and 0=No for don't influence compliance)	Online tax filing (YES = 1 for influences the tax compliance and 0=No for don't influence compliance)
Statistics						
Minimum	0	0	0	0	0	0
Maximum	1	250	1	1	1	1
Mean	0.647	122.847	0.487	0.253	0.273	0.893
Standard Deviation	0.480	47.536	0.501	0.436	0.447	0.310
Kutosis	-1.638	1.263	-2.024	-0.697	-0.957	4.689

4.6 Correlation Analysis

The correlation matrix tests the linear relationship, between the explanatory variables. The matrix also assist in determining the strength of the variables in the model, that is, which variable best explains the relationship between compliance and tax reforms. This is important and helps in identifying non-significant variables in the equation. Table 4.12 presents the correlation matrix of the variables in levels. The table show that tax compliance is correlated to tax rate regime at correlation co-efficient of 0.844, which is significant at 5% level. The TOT training and education is correlated to tax compliance at 0.584 (5 percent significance level). This implies that more training to small and medium entrepreneurs contribute to fully compliance with turnover tax system. The online tax filing is also positively correlated to adoption of turnover tax (.610) at 5 percent significance level.

Table 4.12: Correlation Matrix of Variables

	Tax rate regime	Taxpayer's education & training	Online tax filing	Tax penalties	Technical support	Tax Compliance
Tax rate regime	1					
Taxpayer's education & training	0.089	1				
Online tax filing	0.190	0.157	1			
Tax penalties	0.238	0.356	0.567	1		
Technical support	0.345	0.109	0.002	0.786	1	
Tax compliance	0.844*	0.584*	0.610*	0.008	0.278	1

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

4.7 Logistic Regression Analysis

Table 4.13 shows the summary of how the three variables influence the level of SMEs compliance of the turnover tax by presenting the regression coefficient results. The results indicate that there is a strong correlation between the independent variables and the dependent variable ($R = 0.663$, $p = 0.5$) which is statistically significant at 5%. With an Adjusted R -squared of 0.496, it means that tax rate regime; TOT training and online tax filing explain 49.6% of the variations in compliance of Turnover tax for SMEs. This is means that tax system should be simple and comprehensible to all small and medium enterprises for them to comply with tax

payment. This means that the three independent variables have an impact on the adoption of turnover tax which is the dependent variable.

Table 4.13: Logistic Regression Results

Case Processing Summary

Unweighted Cases		N	Percent
Selected Cases	Included in Analysis	149	99.6
	Missing Cases	1	.4
	Total	150	100.0
Unselected Cases		0	.0
Total		150	100.0

a. If weight is in effect, see classification table for the total number of cases.

Model Summary

Dependent variable (Predict) Tax compliance (paying and filing return) 1 = YES, 0 =NO			
Step	-2 Log likelihood	R Square	Adjusted Square
1	206.240 ^a	.663	.496

Independent variable	B	S.E.	Wald	df	Sig.	Exp(B)
Do you file returns online (YES = 1 for influences the tax compliance and 0=No for don't influence compliance)	1.455	.864	2.839	1	.092**	4.286
Views of Technical support by KRA (YES = 1 for influences the tax compliance and 0=No for don't influence compliance)	.680	.830	.672	1	.412	1.974
Tax penalties paid (in ksh '00)	.328	.412	.634	1	.426	1.389
View of tax regime/rate (YES = 1 for influences the tax compliance and 0=No for don't influence compliance)	1.478	.431	11.744	1	.001*	4.384
Views on Tax training and education (YES = 1 for influences the tax compliance and 0=No for don't influence compliance)	1.963	.845	5.392	1	.020*	7.122
Constant	1.068	.347	9.458	1	.002*	.344

Dependent variable: Compliance with turnover tax for SMEs; significance at 1% & 10%***

Estimated Equation: Tax compliance= 1.068 +1.478 tax rate regime + 1.963*taxpayers training and education + 1.455 online tax filing*

Table 4.13 shows the results of the regression analysis based on the sign of the coefficient and the t-ratio. The constant coefficient is 1.068, which is positively and statistically significant. This indicates that holding all the other factors that affect compliance of turnover tax, compliance will still raise at 1.068. Tax rate regime is positively related to compliance of TOT and have the most statistically significant coefficient as indicated by a t-ratio of 1.478. This is in line with Moyi & Muriithi, (2003) finding that businesses fail to comply with tax due to high tax regime which increases the burden to comply with tax obligations by taxpayers. This discourages their future compliance. This implies that a one unit change in tax rate regime will change the compliance of TOT by 1.478 units. There is a positive relationship between compliance of TOT and TOT training. TOT training also has a statistically significant coefficient as indicated by a t-ratio of 1.963. This is in line with study Jean, (2009) findings that lack of taxpayer initiatives leads poor tax filing and compliance as taxpayers are reluctant to comply with policies of tax which is contributed by tax ignorance. This means that one unit change in the TOT training will change the compliance of TOT by 1.963 units. The online tax filing is positively related to the adoption of TOT. This is shown by the positive sign of the coefficient. The coefficient of online tax filing is also statistically significant as indicated by a t –ratio of 1.455. This means that one unit change in online tax filing will change the compliance of TOT by 1.455. This implies that online tax filing reduces tax compliance burden and make submitting tax returns easier as taxpayers don't have to queue at revenue authority filing returns. Thus online filing increase compliance level.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents summary of the study findings, conclusions and then suggests some policy implications. This study was undertaken to find the relationships between the tax reforms and tax compliance with turnover tax among small and medium enterprises operating in industrial area, Nairobi City County. Tax compliance with tax is the dependent variable which is a binary variable taking a value 1 if an SMEs is paying and filing tax return on turnover tax and 0 if an SMEs is not paying and filing tax return. Tax reforms is independent variable measured by online tax filing (measured by SMEs filing their return online), taxpayers' education (measured by No. of SMEs who have been trained from KRA), tax penalties (measured by No. of SMEs who have been penalized and amount of penalty paid), technical support (measured by No of SMEs who have received customers care support) and simple tax regime (measured by opinion of SMEs on adequacy of the tax rate).

5.2 Summary of Findings

The section below summarises the finding of the study. The study found out that 60% of SMES pay and file returns while 26.7% said they don't pay and file returns while 13.3% did not know if they pay and file returns. Therefore compliance level was estimated at 60% while noncompliance was estimated at 40%. The respondents were asked to indicate how they file their turnover tax returns. The study found out that 86.7% of the SMEs filed their tax returns online while 13.3% of them filed their returns manually at KRA. The respondents were asked whether their employees had been trained by the Kenya Revenue Authority or their respective auditors on filing of turnover tax returns. The study found out that 73.3% had been trained while

26.7 % had not been trained. The results therefore show that most of the employees of SMEs had been trained on how to do the turnover tax returns.

This study found out that 80% of the SME had been audited by KRA, 13.3% had not been audited whereas 6.7% did not respond. SMEs that had been audited said were penalized and penalties ranged from Kshs 0 to Kshs 25,000. The study intended to determine whether the perceived technical support offered by KRA influenced the respondents to comply with tax. The findings established that most of the respondent claimed that the KRA's Taxpayers helpdesk has been able to provide sufficient support in solving our tax compliance, others were satisfied with the current helpdesk at KRA in that it provide assistance when they encounter tax compliance difficulties and a few respondents claimed that they KRA has invested in a trained technical team to provide SME with necessary tax compliance technical support. These results established that the technical support offered by KRA is essential to influence the tax compliance. The researcher enquired as to whether the SMEs found the tax rates in Kenya high. 72% of SMEs think that the tax rates in Kenya are high while those who do not think that it is high were a minority and accounted for only 28%. It can therefore be deduced that to the majority of SMEs find the tax rates high.

Correlation analysis shows in general a high and positive relationship between all the independent variables and the dependent variable. That is compliance of turnover tax is correlated to tax rate regime, taxpayers' training and education and online tax filing. The correlation is significant at 5 significant level and so we can rely on this to conclude that compliance of turnover tax is appropriate. However, tax penalties and technical support were

found not correlated to tax compliance so this two variables were dropped in regression analysis.

Regression results indicates that there is a strong correlation between the independent variables and the dependent variable ($R = 0.663$, $p = 0.5$) which is statistically significant at 5%. With an adjusted R -squared of 0.496, it means that tax rate regime; taxpayers' training and online tax filing explain 49.6% of the variations in compliance of Turnover tax for SMEs. Tax rate regime is positively related to compliance of TOT and have the most statistically significant coefficient as indicated by a t-ratio of 1.478. There is a positive relationship between tax compliance and taxpayers' training. TOT training also has a statistically significant coefficient as indicated by a t-ratio of 1.963. The online tax filing is positively related to the compliance of tax. This is shown by the positive sign of the coefficient. The coefficient of online tax filing is also statistically significant as indicated by a t-ratio of 1.455.

5.3 Conclusion

Most SMEs indicated that they use e-tax registration and file their return online. From this finding, one can conclude that KRA has embraced information technology in its operations to improve TOT compliance among small and medium enterprises in Kenya. SMEs agreed that introduction of the SIMBA, ITMS, ITR and EFT and computerization are the main drivers to compliance and hence more revenue collection.

SMEs indicated that they have been trained by KRA on how to comply with turnover tax. From the explanations given it could be concluded that compliance increases with being taught how to calculate the tax payments and how to file returns while registering for turnover tax. Therefore, majority agreed that training on TOT affects its compliance to a large extent. From the ones who knew about the training they knew how to calculate the turnover tax. It can be concluded that training of TOT improves accounting standards of most businesses and that the businesses are able to grow as a result of proper bookkeeping and accounting. For most of the businesses to get the proper training, the main suggestion given is to ensure that training is carried out on a monthly basis. This concurs with a study done by Jean, (2009) that lack of training initiatives have led to significant poor improvement in the introduction of payments of taxes through banks making investors reluctant to comply with tax policies.

Tax rate regime is positively related to compliance of TOT which is in line with Moyi & Muriithi, (2003) finding that businesses fail to comply with tax due to high tax regime which increases the burden on those taxpayers who try to comply with the tax law. The conclusion from this result is that lower and simple tax rate regime improves tax compliance. Online tax filing is related to tax compliance. This implies that online tax filing reduces tax compliance burden and make submitting of tax returns easier as taxpayers don't have to queue at revenue authority filing returns. Therefore, online filing increase compliance level. TOT training and education is related to tax compliance. The conclusion is that taxpayer initiatives such as training and education leads to improved tax filing due to improved understanding of tax policies.

5.4 Recommendation

The study recommends that to have a fully compliance turnover tax system among SMEs in Kenya, the small traders should be made to understand tax administration through the turnover tax training and education so that they are encouraged to pay taxes promptly. The computation of taxes should also be made simple and comprehensible to all small scale businessmen. KRA should make more frequent friendly visits to the small and medium traders to educate them on the importance of adopting the turnover tax through channels like mobile tax clinics. KRA also need to train tax payers on how to calculate their tax payments, balance their accounts and filing of returns online. In addition, they ought to be taught on the benefits that accrues from many businesses complying with the tax payment.

This study concluded that businesses fail to comply with tax due to high tax regime which increases the burden on those taxpayers who try to comply with the tax law. Therefore, KRA need to lower and simplify the tax regime so as to improve tax compliance. This study concludes that online filing increases compliance level. TOT training and education is related to tax compliance and therefore KRA need to encourage and enhance taxpayer initiatives such as training and education which leads to improved tax filing and compliance.

5.5 Limitations of the Study

In carrying out this study, several limitations were experienced. The researcher was restricted by lack of time in visiting different areas within industrial area and finance required in carrying out this study. In addition, the study relied on primary data collected through structured questionnaires which collection, processing and interpretation is vulnerable to human errors.

Finally, the study relied on a highly sensitive and confidential data and both the organization and respondents were reluctant to give out the information.

To overcome the above challenges, the organization and respondents were assured that the data was restricted for academic purposes and would be confidential. In addition, the researcher conducted much of the research activities on his own to familiarize with respondents and safeguard the integrity of data gathered.

5.6 Suggestion for Further Research

More research is needed in tax compliance in Kenya. Taxpayer education, which was initiated by the Kenya Revenue Authority to help improve on tax compliance seem not to have had a major effect. There is therefore need to carry out more research to establish the same for other classes of taxes or other industries. Secondly, there is need for more research to be done to establish the determinants of tax compliance of mid-sized companies in Kenya.

While there has been research on the productivity of Kenyan tax system, very little has been done on impact of ICT on taxpayers. Hence this analysis ought to be extended to incorporate the effects of ICT on taxpayers.

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APPENDIX

APPENDIX 1: RESEARCH QUESTIONNAIRE

Part 1: Request to Participate in a Research Study

I am a student at the University of Nairobi undertaking a Master of Business Administration degree (MBA). I am carrying out a research as part of the programme degree requirements on the effect of tax reforms on compliance with turnover tax among small and medium enterprises in industrial area, Nairobi

Given your special role and experience as an entrepreneur in the industrial area, you have been picked as one of my respondent. You are only required to fill out a questionnaire in this study. The questions asked relates to your role and experience as an entrepreneur. Please understand that there is no right or wrong answer. The major objective of this study is to accord you an opportunity to give an honest opinion on what you think.

Please note that the requested information will be confidential and it will be restricted to this research and not for any other purpose. Your support will be greatly appreciated. I look forward to your positive response.

Thank you.

Evans Mwit Kanyinga

Part 11: Research Questions

Section A: SME Information

1. Name of the business.....
2. How old is the business?
Less than 2 years ☐
2-5 years ☐
5-10 years ☐
Over 10years ☐
3. What is annual turnover of the business?
Less than Kshs 500,000 ☐
Kshs 500,001 to 2,000,000 ☐
Kshs 2,000,001 – 5,000,000 ☐
More than 5,000,000 ☐
4. Does the business has a PIN for purpose of the tax payment?
Yes () No () Don't know ()
5. If answer is NO in Question 4, explain why?.....
.....
6. Does the business pay taxes and file returns?
Yes () No () Don't know ()

Section B: Turnover Tax Compliance

1. Rank the current Turnover Tax System in terms of Complexity

LEVEL OF COMPLEXITY	Tick
Very, highly complex	
Very complex	
Appropriate	
Less complex	
Least complex	

2. How does the SME file its TOT returns?
Online () Usual way of Delivering them at KRA ()
3. When does the SME file its tax returns?
Before due date () on the due date () after due date ()

4. If, after due date, how much penalties has the SME been charged for late filing for the last four years starting from June 2012 to June 2015?
.....
5. Have the SME employees been trained by KRA or their auditors on filing of tax returns?
Yes () No () Don't know ()

Section C: Tax Remittance & regime rate

1. When does the company remit its tax?
Before due date () on the due date () after due date ()
2. What has been the percentage of tax remitted late over the last five years?
5% ()
10% ()
15% ()
20% ()
Over 20% ()
3. Do you feel that KRA should change tax remittance dates so as to be in line with the other monthly taxes?
Yes () No ()

Section D: Tax rate and Penalties

1. Has the SME ever been audited by KRA?
Yes () No ()
2. If, the answer above is yes, how much penalty was raised?
.....
.....
.....
3. What was the percentage of the penalty raised compared to the principal tax
5% ()
10% ()
15% ()
20% ()
Over 20% ()
4. To what extent do you think the turnover tax rate charged on SMEs is affordable /adequate? Tick appropriately using the 5- point scale Likert scale.
Very able ()
Able ()
Moderate ()

Less able ()
 Unable ()
 Not at all ()

5. To what extent are the employees working for SME are conversant with the current tax rate & enforcement rules? Tick appropriately using the 5- point scale Likert scale.

Very great extent ()
 Great extent ()
 Moderate extent ()
 Less able ()
 Low extent ()
 Not at all ()

6. Indicate the changes that you would like to be made on tax enforcement rules?

.....

Section E: Tax payer Education, Training and technical support

Please rate what reflects your honest personal opinion to questions below in regards to the tax payer education and training offered by KRA

Tax payer Education and Training	Strongly Disagree	Disagree	Neutral	Agree	Strongly
1. I am aware that there is a helpdesk at KRA that I can approach to provide assistance when I encounter tax compliance difficulties.	1	2	3	4	5
2. KRA's Taxpayers helpdesk has been able to provide sufficient support in solving our tax compliance difficulties.	1	2	3	4	5
3. KRA has invested in a trained technical team to provide SME with necessary tax compliance technical support.	1	2	3	4	5
4. The online tax system makes my work easier and thus motivates me to regularly use the online tax system.	1	2	3	4	5
5. As a taxpayer , we have been training by KRA on how to comply with turnover tax	1	2	3	4	5

6. Training offered by KRA on online tax system is worth as it improves our compliance with tax filing	1	2	3	4	5
7. Other taxpayers in our line of business , who are already filing online have influenced us to use the online tax system	1	2	3	4	5

Section F: Other tax reforms that can improve tax compliance among SMEs

1. Are there reforms that can improve the tax compliance by SMEs? If so kindly list them down

.....
.....
.....

2. What challenges do you view affect the tax compliance among SMEs?

.....
.....

3. Please give recommendations of how these challenges can be addressed.

.....
.....

4. What would you wish the KRA would do in order to improve tax compliance among SMEs and understand your business?

.....
.....

Thank you for taking part in the survey