

**A SURVEY OF FACTORS AFFECTING TURNOVER TAX
COMPLIANCE IN WESTERN KENYA**

By

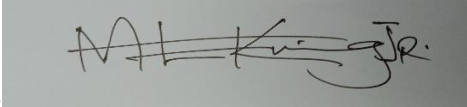
NAME: MARTI NOGOLA ALUOCH

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT
OF THE REQUIREMENTS OF THE DEGREE OF MASTER OF
BUSINESS ADMINISTRATION, FACULTY OF BUSINESS AND
MANAGEMENT SCIENCES UNIVERSITY OF NAIROBI**

2022

DECLARATION

This research project is my original work and has not, been presented for any award or any other purpose in any other institution or University.

SIGNATURE  **DATE** 23/11/2022

NAME: MARTIN OGOLA ALUOCH

REG NO D61/28400/2019

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

SIGNATURE  **DATE** 24/11/2022

DR JOSHUA MAKOKEYO WANJARE

Senior Lecturer

Department of Finance & Accounting

University of Nairobi

TABLE OF CONTENTS

CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Turnover Tax and Compliance	1
1.1.2.1 Taxpayer's level of income	3
1.1.2.2 Taxpayer's level of education	4
1.1.2.3 Tax rate	4
1.1.2.4 Tax benefits and rewards	4
1.1.2.5 Tax audit and penalties	5
1.1.2.6 Moral and ethical reasons	5
1.1.2.7 Perceived fairness of taxes	5
1.1.3 Tax in Western Kenya	6
1.2 Statement of the problem	6
1.3 Research Objective	8
1.4 Value of the Study	8
CHAPTER TWO	9
LITERATURE REVIEW	9
2.1 Introduction	9
2.2 Theories	9
2.2.1 Expected utility theory	9
2.2.2 Behavioral theories on taxation	10
2.2.3 The benefit and ability to pay theories	10
2.3 Empirical Studies	10
2.3.1 Turnover tax	10
2.3.2 Tax Compliance	11

2.3.3	Determinants of Tax Compliance	11
2.3.3.1	Tax payer's level of income	11
2.3.3.2	Tax payer level of education	12
2.3.3.3	Tax rate	12
2.3.3.4	Tax Benefit	13
2.3.3.5	Tax Audit and penalties	14
2.3.3.6	Moral or ethical reasons	14
2.3.3.7	Perceived fairness of the taxes and tax system	14
2.4	Summary of Literature Review	15
CHAPTER THREE		17
RESEARCH METHODOLOGY		17
3.1	Research Design	17
3.2	Population of the study	17
3.3	Sample and sampling frame	17
3.4	Data Collection Instruments	18
3.5	Data Analysis	18
CHAPTER FOUR		19
DATA ANALYSIS, FINDINGS AND DISCUSSIONS		19
4.1	Introduction	19
4.2	Response Rate	19
4.3	Respondents Background Information	19
4.4	Factors Affecting Turnover Tax	22
4.4.1	Tax Payers Level of Income	23
4.4.2	Tax payers level of education	23
4.4.3	Tax Rate	25
4.4.4	Tax Benefits	26

4.4.5	Tax Audit and Penalties	27
4.4.6	Moral or Ethical Reasons (MER)	28
4.4.7	Perceived Fairness of Tax	29
4.5	Summary of Mean Responses.	30
4.6	Factor Analysis.	35
4.6.1	Sample Test of adequacy	35
4.6.2	Communalities	36
4.6.4	Rotated Component Matrix	38
4.7	Discussion of Findings	39
	CHAPTER FIVE.	41
	SUMMARY, CONCLUSION AND RECOMMENDATIONS	41
5.1	Introduction	41
5.2	Summary	41
5.3	Conclusion	41
5.4	Recommendations	42
	REFERENCES.	43
	Appendix i: LIKERT SCALE QUESTIONNAIRE	47

LIST OF TABLES

Table 1: Age of your business	19
Table 2: When did you start paying turnover tax?	20
Table 3: What is your level of education?	21
Table 4: Turnover Per Year	22
Table 5: Frequencies- Tax Payers Level of Income	23
Table 6: Tax Payers Level of Education	24
Table 7: Tax Rate.	25
Table 8: Tax Benefits	26
Table 8b: Correlation	27
Table 9: Tax Audit and Penalties.	28
Table 10: Moral or Ethical Reasons	29
Table 11: Perceived fairness of Tax	30
Table 12: Descriptive Statistics on Attitudes Towards Factors Affecting Turnover Tax Compliance	32
Table 13: (CONTINUATION): Descriptive Statistics on Attitudes Towards Factors Affecting Turnover Tax Compliance	34
Table 14: Descriptive Statistics.	35
Table 15: KMO and Bartlett's Test	36
Table 16: Communalities.	36
Table 17: Total Variance Explained.	37

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Government need massive revenue to support its programs. Tax is a source of revenue. Governments finance their operations and programs through taxation, aid or debt. Government use tax to bring equality among citizens. Tax revenue finance public expenditure for economic development in addition to expansion of social services like health, education to strengthen the position of weaker citizens. The implication is that for citizens to enjoy public good and services they must pay taxes, therefore, Government would like to collect as much tax as possible. This study focus on what the tax authority require to maximize on tax collection. The starting point would be to understand how taxpayers make tax-related decisions.

The sources of tax revenue are income tax on income and expenditure, property taxes, customs duty, commodity taxes or taxes on goods and services. In Kenya, the taxes are income tax, rental income tax, value-added tax, exercise duty, capital gains tax and agency revenue. An aspect of income tax is turnover tax.

1.1.1 Turnover Tax and Compliance

Turnover Tax (TOT) is a tax charged on gross sales of a business as per Sec. 12(c) of the Income Tax Act. The tax is payable by resident persons whose gross turnover is more than Ksh 1,000,000 but less than Ksh 50,000,000 in any given year (Kenya revenue authority 2012). Small and medium businesses are thought not to be paying enough taxes. The Commissioner for Domestic taxes at the Kenya Revenue Authority, Hizabeth Moyo, assertion is that turnover tax is to “bring the informal sector into the tax bracket and ensure equitable distribution of the tax burden” (Jalio, 2020).

Kenya Revenue Authority ‘attributed the growth in revenue to improved tax compliance, enhanced active surveillance, enforcement operations and the implementation of the Voluntary Tax Disclosure Program (VTDP)’ (Standard Newspaper, 2022). Turnover tax was introduced in Kenya in 2006 but shelved because of issues surrounding its administration. It was replaced by the presumptive tax in 2018 and then re-introduced through Finance Act of 2019.

Turnover tax compliance is the taxpayers' capacity and willingness to obey the turnover tax laws and pay the right amount of taxes (Organization for Economic Co-Operation and Development, 2004). Tax performance is the amount collected by tax authority and a good indicator of tax compliance. The Commissioner for Domestic Taxes at the Kenya Revenue Authority, Elizabeth Moyo, assertion is that turnover tax is to "bring the informal sector into the tax bracket and ensure equitable distribution of the tax burden" (Jalio, 2020). The Government to minimize noncompliance, increased deterrence; increased information reporting; decreased compliance costs; and increased benefits, introduced turnover tax.

Theories that explain tax compliance and performance are, expected utility theory (economic theory), behavioral approach theory and deterrence theory. Expected utility theory is about the best choice in the face of uncertainty. It suggests that tax is paid by those who expect to benefit from it (Kibret, 2021; von Neumann and Oskar Morgenstern, 1944; Allingham and Sandmo, 1972).

Benefit theory, ability to pay theory and Deterrence theory emerges from expected utility theory. Taxation is meant to maximize welfare of all citizens, whether they pay tax or not. Arthur Seal Figo developed the ability to pay as criteria for charging tax (Figo 1932). The benefit theory is linked to (Eric Lindahi 1958).

Behavioral approach theory focuses on the moral, psychological, and social reasons that influence tax compliance by the taxpayer (McKerchar and Evans 2009). The emphasis in this theory is that people pay tax to be good citizens but that there are those who do not comply (Frey 2003). Deterrence theory relate to probability of detection and the penalty rate and model noncompliance as a crime (Sandmo, 2004). The assumption in this theory is that no taxpayer wishes to pay tax (Frey and Feld 2002).

Turnover tax (TOT) is a charge on gross turnover from a business and not on profits of firms. The uniqueness of TOT, compared to PAYE collected by the employer or VAT collected at the sale point, is that the decision to opt for it is an individual decision. Rental income, professional and training fees, and income that is subject to a final withholding tax are not included in TOT (Kenya Revenue Authority, 2021). TOT targets small and medium businesses (Ouma, Njeru, Kamau, Khai nga & Kiri ga, 2007).

Businesses dislike this tax because it is based on gross turnover (sales), meaning even firms reporting losses pay TOT. This tax is costly to the taxpayer because it is paid monthly and requires substantial accounting time. It is a proportional tax in that the rate of tax remains unchanged regardless of the level of turnover. From the Kenya Revenue Authority perspective, TOT is a simplified tax system targeting micro business. The idea behind TOT is to lower tax rates, replace income tax, capital gains tax and other taxes as specified under the law. The objective of this tax is to expand the tax base and have more citizens paying taxes.

Tax compliance is a taxpayer's decision to observe tax laws and regulations by paying accurate tax on time. (Togler and Schneider 2007) view is that deterrence, sociological and psychological factors could explain compliance levels. Taxpayers are aware, if they fail to observe tax requirements as specified by tax collecting authority, they will be subjected to additional tax and penalties equal to the defaulted amount and interest. They can be jailed.

1.1.2 Factors affecting turnover tax compliance

An effective tax system must be simple, efficient, and equitable. The determinants of tax compliance emerge from the theories cited above. Tax compliance is partly explained by the taxpayer behavior and collecting authority (James, 2012). The focus is on factors that taxpayer's factor in their tax compliance decision. Tax literature identify tax drivers. In this study, the focus is on the following drivers: taxpayer's level of income, taxpayer level of education, tax rate, tax rewards, tax audit and penalties, moral and ethical reasons and perceived fairness of the taxes (Kibret, 2021). These factors are assumed to shape taxpayer attitude towards taxes. The assumption is that compliance is influenced by taxpayer attitude towards taxes, and that these factors feed into the taxpayer attitude.

1.1.2.1 Taxpayer's level of income

Level of income is the combined income of a taxpayer from all sources. Evidence elsewhere shows that fluctuations in income of small and medium businesses impact on their tax compliance level (Nadee and Premaratna, 2020). The starting point for tax calculation is gross revenue (turnover); and turnover tax is based on the revenue from business. Businesses with fluctuating incomes are not likely to opt for turnover tax.

1.1.2.2 Taxpayer's level of education

Level of education is about empowering taxpayers to understand tax rules and principles to enhance their tax compliance. Level of Education explain a taxpayer's capacity to grasp tax regulations (Fauziati, Mnovia, Misli m & Nasrah, 2016). According to KRA tax, education provides knowledge and skills that shape citizen's attitude and perception about taxation (Kenya Revenue Authority, 2020). A survey by (A-Taffi, Bin-Nashwan, Amrah 2020) on tax knowledge and the behavior of taxpayers conclude that knowledgeable taxpayers tend to be tax compliant. It is possible that knowledgeable taxpayers, because they are more tax informed resort to tax avoidance.

1.1.2.3 Tax rate

Tax rate or rate of taxation is the percentage of the taxable amount that is paid as tax. For example, if your taxable amount is Shs. 100,000, and you pay a tax of Shs. 20,000, then your tax rate is 20 percent. Intuitively taxpayer would prefer a lower tax rate because a higher tax rate increases the tax burden, an argument supported by The Laffer Curve theory (Mravete, Seimb and Thurb, 2018). Laffer curve is a theoretical relationship between tax revenue and rates of taxes, suggesting that, at extreme tax rates of zero (0) percent or one hundred (100) percent, no tax is collected.

1.1.2.4 Tax benefits and rewards

Tax benefit and rewards relate to tax laws that help taxpayer reduces tax liability. It is debatable whether tax benefits or rewards encourage tax compliance. It is important knowing whether taxpayer value the benefits or not. Different taxes have different benefits, and an example would be a tax credit for a qualified expense such as a donation. Tax rewards are offered to those who are good taxpayers and credible informers who report a tax fraud, to encourage good behavior. (Brockmann, Genschel, and Seelkopf 2016) studied the effect of positive rewards on income tax evasion behavior, concluding that rewards significantly affected taxpayer behavior. Carrillo, Castro and Scartascini (2016) reported that "rewarding taxpayers for good behavior with a durable and visible public good has large positive effects."

Tax is also beneficial if tax payer see tangible benefits, specifically whether the government use tax collected to safeguard the economic and social interest of the citizenry. There should be morale to pay tax. However, tax morale and confidence is built over a period of time and driven by historical- and cultural factors (Feld and Frey, 2007).

1.1.2.5 Tax audit and penalties

Tax audit is an examination of taxpayer's tax return by the tax authority starting with the declared taxable income. Tax penalty is a fine charged by the tax authority for tax non-compliant, e.g. for paying taxes late or for understating taxable income. The idea is to find out and punish those who are not tax compliant. Will the fear of penalties make taxpayers tax compliant, specifically turnover tax compliant? Will taxpayers be reluctant to register as a taxpayer when threatened with tax audits and penalties? Assuming a taxpayer is a utility maximizer, then one would expect the taxpayer to avoid paying taxes as long as the benefit of tax evasion is higher than the cost of avoidance (Milliron and Toy, 1988).

Tax authorities use the threat of punishment to deter noncompliance (Mhdalia, Isa and Yusoff, 2014). (Mhdalia, Isa and Yusoff 2014) found that a threat to punishment has no effect on taxpayers level of compliance but make them less compliant. (Park and Hyun 2003) found a positive relationship between penalties and tax compliance, yet (Am Jackson and McKee 1992) report a negative relationship.

1.1.2.6 Moral and ethical reasons

Morality is about right or wrong and good and bad behavior. Is it unethical or immoral not to be tax compliant? Tax payers who consider it moral or ethical paying taxes are at higher compliance levels than those who are not. Therefore, a higher value of ethics is expected to lead to better tax compliance. (Dell'Anno 2009) found that tax morale is driven by the taxpayers' intrinsic attitudes to honesty and social choices.

1.1.2.7 Perceived fairness of taxes

There should be morale to pay tax. However, tax morale and confidence are built over a period of time and driven by historical- and cultural factors, around how fair taxes are (Feld and Frey, 2007). A fair tax system allows a taxpayer to keep most of the money they make; it does not leave the taxpayer worse off (Richardson, 2005). Fairness can be procedural, distributive and retributive.

Procedural justice is fairness in the processes (rules and regulations) that resolve tax disputes (Lind and Tyler, 1988). Distributive justice is the apparent fairness of outcomes or resource allocations, in this case tax outcome; the tax system should not be discriminative (Adam 1965). Retributive justice is about punishment for wrong doing. It is the belief that those who do wrong are punished and the victims should be compensated, but fairly, there should be punishment for people who do not pay taxes and rewards to those who are tax compliant (Wilén, 2015).

1.1.3 Tax in Western Kenya

Kenya Revenue Authority for effective administration of tax and move closer to tax payers have mapped the country into six regions, with regional offices at Eldoret, Nakuru, Kisumu (Western Region), Mombasa, Embu, Nyeri and Headquarters in Nairobi. This study focus on Western region and covers the old Nyanza and Western Kenya provinces.

Turnover tax was introduced to maximize tax collection from small and medium businesses, such businesses are prevalence in Western Kenya as either large companies do not exist in this areas, or the ones that exist e.g. sugar companies have collapsed or, are under receivership. These are low tax regions.

However of late due to improvement in infrastructure in counties such as Kakamega and Busia, many small businesses are coming up. Such businesses will have to be taxed and it is important capturing the attitude of tax payers in these regions.

1.2 Statement of the problem

The Government introduced turnover tax to encourage small and medium businesses to be tax compliant. Small and medium businesses were thought not to be paying enough taxes due to lengthy and detailed tax compliance requirement. The assumption was that tax based on turnover would encourage small and medium businesses to be tax compliant. However the government have realized that negative gap between government expenditure and revenue is largely due to tax noncompliance; and the government is asking KRA to collect more tax. Therefore it is important understanding factors that taxpayers consider to be tax compliant.

Tax compliance is about observing tax laws by paying taxes as required. (Organization for Economic Co-Operation and Development, 2004). Tax compliance is central to the amount of taxes collectable; synonyms of not paying taxes is tax evasion and tax avoidance. (Alinghnam and

Sandmo, 1972; Kassa, 2021) suggested that managing tax compliance require an understanding of factors that drive taxpayers to tax evasion and avoidance.

(Ndungu 2013) asserts that staff motivation, employee competency, infrastructure, tax legislation impacts on tax collection. However, even with these in place, the tax compliance level is low. This suggests a misunderstanding between tax payer and collector. Therefore, it is necessary explaining the gap between the tax collected and tax that was expected to be collected. (World Bank 2021) report indicates that financing gap for developing countries is about \$2.5 trillion annually. Developing countries like Kenya face serious challenges in collecting taxes. The report recommends appropriate tax policies and practices. As at December 2017, Kenya's national debt stood at Shs. 4 585 trillion and this jumped to Shs. 8 206 trillion as at December 2021, an increase of Shs. 3 621 trillion or an increase of 79 percent, and this is partly because not enough tax is being collected (Kenya Revenue Authority 2021) report shows that Kenya's tax gap remains high and there is a need to expand the tax base. In fact, the idea behind turnover tax is to increase the tax base.

Turnover tax target self-employed and small businesses, as this group exhibits lower rates of voluntary compliance (Ali, Cecil and Knoblett, 2001). Hence the need to understand low compliance rates. A number of factors are mentioned in the literature as explaining non tax compliance. However, the factors surveyed in this study as having an impact on the amount of collected tax are: taxpayer's level of income, taxpayer level of education, tax rate, tax rewards, tax audit and penalties, moral and ethical reasons and perceived fairness of the taxes. The preceding factors might apply to all taxes, but for better management, it would be important identifying which of these factors is specific to turnover tax. For example, taxpayer's attitude shaped by level of education is examined to establish their effect on tax compliance (Tedele 2015).

Furthermore, there is no agreement as to whether this factor have negative or positive effect on tax compliance and tax collectable. Some tax payers dislike TOT because it is based on gross turnover (sales); others like it because it is simple. TOT is mainly targeting SMEs on the assumption that SMEs don't pay taxes, which might not be true (Jalio, 2020).

While (Mhdalia, Isa and Yusoff 2014) found that a threat to punishment have no effect on taxpayer's level of compliance, (Park and Hyun 2003) found a positive relationship between penalties and tax compliance, but (Am Jackson and McKee 1992) report a negative relationship. (Johns and Semrod 2008) found that those with less income do not declare the correct amount of taxable income. (Durham Minly, & Ritsema, 2014) found no relationship between overall compliance and the taxpayer income level. (Yitzhaki 1974) argued that the income the tax payers report as taxable get less as tax rate increases. (Alingham and Sandmo 1972) found no connection between reported taxable income and tax rate. While intention of tax benefits and rewards is to enhance compliance, withdrawing the benefit or tax incentive reduce compliance (Aclan and Levy, 2013; Gneezy, Meier and Rey-Biel. 2011). However, the findings are mixed (Feinstein 1991), report a negative relationship between tax rates and tax evasion when the data for 1982 and 1985 are analyzed separately, but a positive relationship in the pooled data.

The factors introduced above apply to taxes in general. However, it is not clear which of these drivers is specific to turnover tax in western Kenya. This study will answer the question: What factors drive taxpayer decision to comply with turnover tax in western Kenya?

1.3 Research Objective

The study intends to establish factors that drive taxpayer decision to comply with turnover tax.

1.4 Value of the Study

The government, the tax authority and other stakeholders can use the findings to increase tax performance among small taxpayers subject to turnover tax and general tax collection in our country, hence boosting economic growth. The finding can be used to revise tax laws.

Practitioners will use the findings to improve on their tax management.

Scholars and researchers who need to grow and/or advance their expertise in the field of tax compliance and administration will be interested in the study.

The findings will add to the tax literature and form a useful input to tax trainers.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In chapter one the background of the study, statement of research problem and research objective is presented. This chapter discusses literature review on the theoretical framework and factors affecting tax compliance. The literature review is linked to the objective of the study, specifically literature on factors that drive turnover tax compliance.

2.2 Theories

Tax theories explain tax compliance behavior of taxpayers. The theories relevant to this study include expected utility theory, behavioral theories on taxation, the benefit and ability to pay theory.

2.2.1 Expected utility theory

The origin of this theory is diminishing marginal utility. Tax payers receive decreasing utility from each additional shilling as income increases. The expected utility theory is useful when the payoff is uncertain (John von Neumann and Oskar Morgenstern, 1944). This theory is about the best choice in the face of uncertainty. The benefits of tax to taxpayers appear to be uncertain, therefore whether to pay tax or not is built around expectations. This theory suggests that tax is paid by those who expect to benefit from the tax (Alingham & Sandmo, 1972). The taxpayer is faced with calculating two probabilities, namely the probability of benefiting and not benefiting from tax paid. This theory of tax evasion, predicts a negative relationship between tax rates and evasion whenever fines are imposed on the evaders (Yitzhaki 1974); An increase in tax rate assuming no change in tax benefits lower investor's level of satisfaction from tax, hence they resort to evasion. The expected utility theory (EUT) predicts a negative relationship between tax rates and evasion whenever fines are imposed on the evaded tax. Therefore taxpayers exhibit decreasing absolute risk aversion (Yitzhaki 1974). The conclusion is that compliance is about maximizing the outcome for the taxpayer and not necessarily the tax collector (Hashimzade, Myles, & Tran-Nam 2013).

2.2.2 Behavioral theories on taxation

This theory helps in understanding taxpayer behavior. This theory suggests that tax compliance is shaped by sociological attitudes and beliefs (Smith and Kinsey, 1987). Behavioral theories on taxation rely on psychology and sociology to understand how and why citizens pay or refuse to pay taxes. The assumption is that taxpaying depends on the social situation of the taxpayer. Behavior is shaped by attitude, experience and beliefs (Kent and Karyl, 1987). Behavioral models would explain tax positions of the taxpayer not explained by economic models as discussed under expected utility theory.

2.2.3 The benefit and ability to pay theories

These are aspects of expected utility theory with focus on public finance. This theory evaluates the efficiency of taxes and was advanced by (Wicksell 1896) and (Lindahl 1991). The benefit theory states that those receiving the benefit should pay more taxes than those not receiving the benefit. Practically businesses with the highest turnover benefit more from the society and should pay more for the benefits. It bases taxes to pay for public-goods, expenditures on a politically-revealed willingness to pay for benefits received.

The ability-to-pay principle assumes that everyone's well-being depends upon a scheme of cooperation without which there will be no satisfactory life for all. (Rawls 1971) views that inequality is acceptable only if it helps lift the life of those who are worst-off. The ability-to-pay principle, which is the most accepted theory of taxation, is interpreted to mean that a progressive tax rate structure is put in place as opposed to turnover tax which is at a constant rate. English philosophers John Locke and Thomas Hobbes did not support ability-to-pay principle, arguing that equity should be measured by what is spent and not what is earned (Britannica 2022). Taxes like VAT are consumption-based and are driven by the ability-to-pay principle.

2.3 Empirical Studies

2.3.1 Turnover tax

The introduction of turnover tax is based on the assumption that small and medium enterprises are not tax compliant under the conventional tax system (Smulders, Stiglitz, and Franzsen, 2017); and turnover tax is a micro-businesses' tax meant to reduce compliance costs. It is an all-inclusive

tax that replaces a number of taxes such as income tax and capital gains tax. For this tax, the tax rate was reduced from 3 percent to 1 percent (Kenya Revenue Authority, 2022).

(Lindeque 2012) finds justification for turnover tax. That is, taxpayers, on their own can file their tax returns, thus reducing their tax compliance costs. Those who opt for TOT will not require the services of tax practitioner. The evidence of the successful turnover tax system is less reliance by taxpayers on tax practitioner to file tax returns.

(Rahim 2015) using data in Republic of South Africa does not think TOT system is the best for small businesses because it ignores the key aspects of an effective tax system such as deductible expenses and capital allowances. Guckman and Turner (2018) concluded that TOT system is not fair because it ignores modern tax principles mentioned in (Rahim 2015).

2.3.2 Tax Compliance

Compliance has two sides. Tax collector is assumed to take decisions that maximize tax collectable while taxpayers would want reduced tax payments; however, both tax collector and taxpayer must judiciously follow taxation guidelines (MC Kerchar and Evans 2009). There are also moral, economic and social factors that impact on tax compliance. People pay tax to be good citizens – the theory of tax morale (Frey 2003). The drivers of tax compliance from the taxpayer perspective include fear and respect for tax collecting authority (Doyle, Keegan, Reeves, 2020).

2.3.3 Determinants of Tax Compliance

The drivers of tax compliance and tax collectible include taxpayer's level of income, taxpayer level of education, tax rate, tax rewards, tax audit and penalties, moral and ethical reasons and perceived fairness of the taxes.

2.3.3.1 Tax payer's level of income

(Nadee and Premaratna 2020) study on small and medium level business found that fluctuations of the taxpayer's level of income impact on taxpayer's compliance. The amount of tax payable is driven by the taxpayer's level of income. (Johns and Slemrod 2008) found that those with less income do not declare the correct amount taxable, the result is less tax collectable. Other

researchers find no relationship between overall compliance and the income (Durham Manly, & Ritsema, 2014).

2.3.3.2 Tax payer level of education

Low level of education would mean failure to internalize the turnover tax system. Turnover tax is not adopted by taxpayers due to their ignorance and low level of education (Labuschagne, 2018). Tax education is making taxpayers understand why taxes are paid and the process of collecting taxes (Aksnes, 2011). Tax informed payer is aware of critical tax policy principles (Fauziati et al., 2016; Loo, 2016); (Loo et al., 2014) found that under the self-assessment system educated taxpayers show a higher level of tax compliance. A survey by (Al-Taffi, Bin-Nashwan and Anrah 2020) on the influence of tax knowledge on the behavior of taxpayers found that knowledgeable taxpayers tend to be tax compliant. (Kasipilai and Jabbar 2013) concluded that a good understanding of taxes leads to higher tax performance rate. Their conclusion was based on the observation that, 97 percent of respondents had tax awareness, and SMEs in Malaysia adheres to tax legislation. In any case educated taxpayers are more likely to correctly calculate tax liability than the uneducated group. (Harris 2013), found that SMEs in the United Kingdom are tax-savvy, as most of them are educated and aware of tax legislation.

In Kenya, (Gtaru, 2017) concluded that "stakeholder's sensitization is positively related to the taxpayers' education to correctly calculate the tax payable, with a correlation coefficient of 0.810." However, the interest in this study will be the effect of education on turnover tax. (Hansford 2015) observed that small business taxpayers were unaware of tax requirements, the result being unintentional tax non-compliance. However, there is evidence that the level of education is not linked to evasion or avoidance (Hte, 1995).

2.3.3.3 Tax rate

Tax rate is at the center of conflict between taxpayer and tax collector in that the taxpayer prefers a lower rate. However, tax collectors prefer a higher rate, and this explains why tax reforms focus on tax rates (Gale and Samwick, 2014). Studies on the relationship between reported income, actual income and tax rate show mixed findings. (Yitzhaki 1974) argued that the income the taxpayer's

report reduces as tax rate increases; however, (Alingham and Sandmo 1972) found no connection between reported taxable income and tax rate.

Investors who are tax paying prefer a lower tax rate because they prefer to pay less tax in order to have a higher income that enable them finance their consumption and save.. (Alingham and Sandmo 1972) argue that risk averse consumers choose tax evasion under certain circumstances because higher tax rate reduce disposable income.

The argument advanced by (Gale and Samwick 2014) is that tax rate cuts encourage individuals to work, save, and invest. This happen when savings from the tax cuts are invested in income generating projects. If resulting income is subjected to additional taxation, the tax collector also benefits. The alternative argument is that when tax rates are too high, the taxpayer will understate their taxable income thus becoming non-compliant (Feinstein, 1991). For example when Russia employed a flat tax rate, tax revenues increased (Papp and Takáts, 2008). The conclusion was that tax rate cuts increase tax revenues through tax compliance. Equally lower taxes translate into higher income because the taxpayer will pay fewer taxes (Alingham and Sandmo, 1972). As mentioned above, the findings of (Feinstein 1991) are mixed.

2.3.3.4 Tax Benefit

(Fochmann and Kröll 2016) reported three findings: that the relationship between rewards and performance is negative; rewards have no effect on decisions made by those rewarded, but negatively affect those not rewarded. It is not clear whether to use reward or not. The third finding was 'an inverse u-shaped relationship between public good contribution and tax compliance', suggesting that use of tax benefits and rewards increase's compliance up to an optimum point, but further use of tax benefits and rewards has negative effects on compliance. (Brockmann, Genschel and Seelkopf 2016) raised the question: 'Can government increase tax by rewarding honest taxpayers? They found that reward affected taxpayer behavior but there is a level of obscurity. They asserted that the level of response to rewards differed between men and women. When the reward system was introduced, women were more tax compliant than men.

2.3.3.5 Tax Audit and penalties

(Amin 2013) evidence confirms widespread tax avoidance and evasion across countries. An audit with a higher likelihood of detecting or unearthing non-compliance encourages compliance. An audit that highlights the probability that non-tax compliant will be discovered and punished is expected to encourage compliance. (Asnawi 2016) found an increase in tax compliance when the possibility of a tax audit is great. (Witte and Woodbury 1985) report mixed findings, that is, the audit may have a positive, negative, or no relationship with compliance.

The deterrence theory tells us that taxpayer reported income and tax payable is explained by the probability of detection and the penalty (Srinivasan, 1973). Compliance will be higher, the greater the risk of detection (Heinemann and Kocher, 2000).

2.3.3.6 Moral or ethical reasons

The proposition is that taxpayers who believe in ethics are tax compliant than those who are not; that is individual's tax compliance decisions are driven by that individual's ethics (Amin and Torgler, 2011). (Devos 2014) in Australia concluded that tax morals, tax fairness impact on taxpayer compliance. (Henderson and Kaplan 2005) found a relationship between ethical evaluation and tax compliance. (Amin and Torgler 2011) asserted that individuals are not always selfish and self-interested as assumed under the standard neoclassical paradigm and there is no uniformity in ethics across individuals, adding that differences matter when it comes to tax compliance. (Amin and Torgler 2011) concluded that compliance relies on trust and how ethical taxpayers are. Taxpayer's will comply if they believe it is immoral not to pay tax (Torgler, 2008). (Asnawi 2016) report that ethics impact on tax compliance at all audit levels.

2.3.3.7 Perceived fairness of the taxes and tax system

A taxpayer attitude towards taxation can be negative or positive (Amin 2021). Taxpayer's mindset impacts on tax compliance behavior (Amin 2021). Amin (2021) reported a negative relationship between taxpayer attitudes and non-compliance behavior. (Joshitta, Divya and Princitta 2013) and (Nkwe, 2013) both concluded that perceived fairness of taxes explains tax compliance behavior. Taxpayer will be reluctant in paying taxes if taxation induces economic distortions that translate into welfare losses (Gale and Samwick, 2014).

A fair tax system is one, which is equitable to all citizens. This is linked to two theories, namely benefits received and ability to pay. In (Kirchler 2007), the proposal is that taxpayers, in their compliance decision, evaluate how fair the tax system is. This suggests that fewer taxes will be collected when the tax system is unfair. (Saad 2012) compares the tax fairness and tax compliance between New Zealand and Malaysia, concluding that, individual attitude towards compliance explained the difference in compliance levels. The objective of tax management is to ensure fair tax assessment, efficient and equitable tax collection to maximize tax revenue (World Bank 2015). Taxes which are fair improve the morale of taxpayers (Torgler and Schneider (2007).

(Faizal and Palil 2015) examined tax fairness and tax compliance in Malaysia, concluded "Result shows that the respondents believe in perception that fairness could influence their tax compliance behavior. However, only procedural fairness has positive and significant correlation with tax compliance. Meanwhile, distributive and retributive fairness only bears positive but insignificant correlation."

The other aspect of fairness is efficient administration of taxes. Efficient administration of tax requires that tax laws are precise, predictable, cost-effectiveness, and convenient (Britannica 2022). Taxes must be under an accountable authority, such as Kenya Revenue Authority, to gain the confidence of taxpayers as to question the taxes they are asked to pay. The cost of compliance must be reasonable in terms of paper work and labor time. Compliance costs include: costs of keeping records, filing of tax returns and reduced tax liability (Hudson and Teera, 2005). High compliance costs would undermine level of compliance (Hudson and Teera, 2005).

2.4 Summary of Literature Review

The literature identified theories that anchor this study. It also identified the potential drivers of tax compliance. The drivers range from variations in taxpayer's level of income to perceived fairness in taxes.

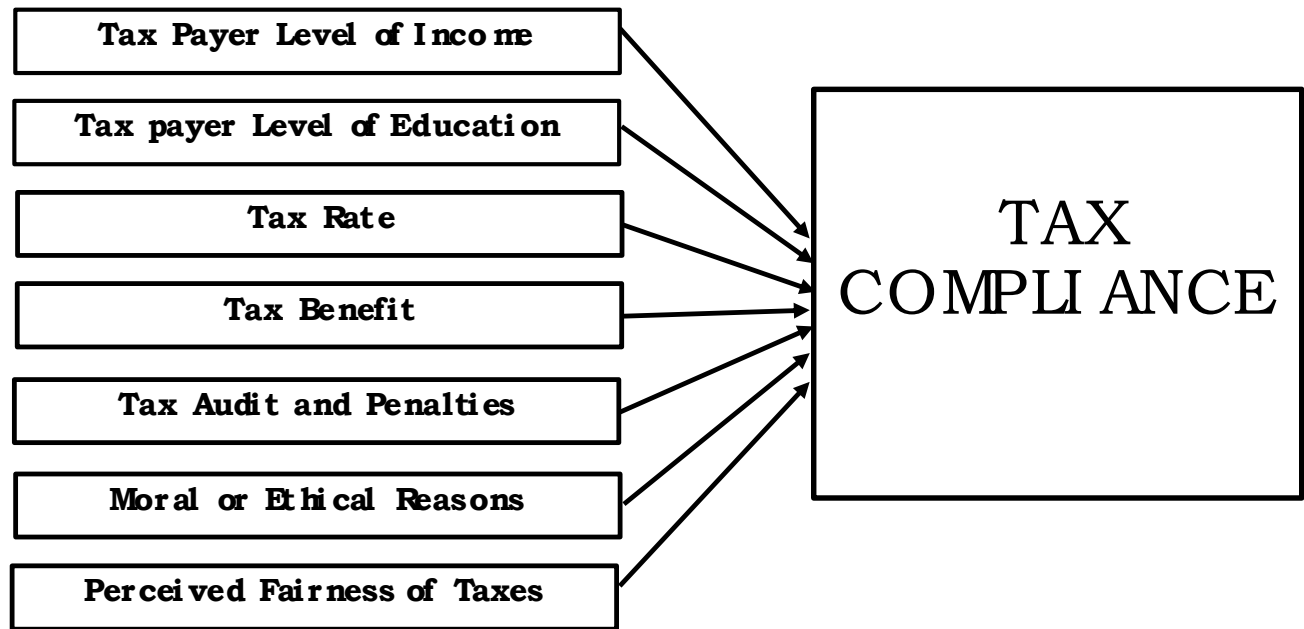
The empirical studies are on turnover tax compliance and its determinants which include taxpayers' level of income, taxpayers' level of education, tax rate, tax benefit, tax audit and penalties, moral and ethical reasons and perceived fairness of taxes. The theories reviewed emphasize on taxpayers behaviour and reaction to taxes and there is a need to establish which of theories apply to turnover tax. This is done by

questioning taxpayers. A number of questions on factors presented to the taxpayers are anchored on these theories, the most popular one being ability to pay theory. Questions on whether taxpayers benefit from the tax they pay is linked to expected utility theory. Tax payers are unhappy when tax is not beneficial, one researcher asserted that an increase in tax assuming no change in tax benefits lower investor's satisfaction from tax. Not surprisingly (Yitzhaki 1974) conclude that taxpayers exhibit decreasing absolute risk aversion. It is clear that taxpayers are not tax averse as intuition tell us. It emerges that tax compliance is about maximizing outcome for taxpayers and not tax collector.

From the empirical studies, there is no agreement on the factors that drive turnover tax compliance. Therefore the literature helped in identifying research gap and providing a platform to discuss findings in the study as is presented in Chapter four. From the literature review a conceptual framework emerges as presented below

INDEPENDENT VARIABLES

DEPENDENT VARIABLE



CONCEPTUAL FRAME WORK

CHAPTER THREE

RESEARCH METHODOLOGY

The previous chapter presented the theories anchoring this study and reviewed and synthesized prior studies related to the research problem under investigation and research objective. This chapter presents and justifies the choice of research design, population of the study and sample and sampling frame.

The other parts are the data collection instrument and how the data was analyzed.

3.1 Research Design

Bryman and Bell (2007) note that a well-structured study design is the key from hypothesis writing to data analysis. The study adopted a descriptive research design. This approach is appropriate because the researcher intends to survey factors that taxpayers consider in their turnover tax compliance. The aim is to identify tax compliance factors that are considered by taxpayers.

3.2 Population of the study

The study chose the taxpayers in Kisumu, in the Domestic Taxes Department Small Taxpayers offices in Kisumu as the main unit of analysis. This is because turnover taxpayers fall under this department. The total number of those who pay turnover tax are 235 taxpayers. (Kenya revenue authority 2022).

3.3 Sample and sampling frame

Using the Krejcie and Morgan (2012) table, shared the same formula with (Cochran 1967), the sample size from a population of 235 turnover taxpayers around Kisumu city will be 147, allowing an error margin of 5% and a confidence level of 95%. To choose the 147 from a population of 235, SPSS statistical package random generator will be employed.

3.4 Data Collection Instruments

The study was a survey on determinants of TOT compliance from the perspective of the taxpayers. It is about capturing taxpayers' attitudes toward turnover tax. It employed primary data collected through a questionnaire to capture the response of the individual taxpayer. Given the large number of taxpayers, the questionnaire was self-administered, that is delivered in paper-and-pen format. The study employed a close-ended questionnaire that allows the respondent to assign a number or value to each answer for ease of analysis. The aim was to capture, summarize and compare the responses of different individuals; and get higher response rate.

3.5 Data Analysis

The use of close ended questionnaire allowed for the derivation of descriptive statistics. Frequencies were calculated to get basic information. Each question responded to was described in terms of mean, median, mode, minimum maximum and standard deviation which enabled ranking of factors.

The study used factor analysis to identify key factors that explained turnover tax compliance. Factor analysis helped to identify a small number of factors that explain most of the variance.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

The previous chapter presented the overall research design and methods of analysis. In this chapter, the results of the survey are presented. The collected data was used to address research objective which was to establish factors that drive taxpayer decision to comply with turnover tax. Descriptive statistics and factor analysis is used to capture and filter information from the data supplied by respondents. Summary and discussion of the findings is presented at the end of this chapter.

4.2 Response Rate

In chapter Four the total number of those who pay turnover tax are 235 taxpayers, and a sample size of 147 was considered appropriate, this sample size give a confidence level of 95% that the real value is within $\pm 5\%$ of the surveyed value. One hundred and forty-seven (147) questionnaires were sent out and fifty-five returned, giving a response rate of 37.4 percent; for a survey such as this a response rate of at least 30 percent is acceptable.

4.3 Respondents Background Information

The taxpayers sampled have been in business for a period of one (1) to ten years, the majority (74.5 percent) have been in business between 2 years and 8 years. This means that the respondents have enough experience with turnover tax as shown in Table one.

Table 1: Age of your business

	Frequency	Percent	Valid Percent	Cumulative Percent
0-1 Years	9	16.4	16.4	16.4
2-3 Years	24	43.6	43.6	60.0
4-6 Years	11	20.0	20.0	80.0
7-8 Years	6	10.9	10.9	90.9
9-10 Years	5	9.1	9.1	100.0
Total	55	100.0	100.0	

Source of Data: Primary Data

The information in table one suggest that the respondents have been in business long enough to understand and effectively comment about the effect and structure of turnover tax.

The respondents were asked when they started paying turnover tax and results presented in table 2. The idea is to establish whether overtime there is improvement in collection of turnover tax, by way of more firms opting for this tax. In table 2, only one joined in 2012 while 13 joined in 2019 and 2021. This suggest turnover tax awareness. (See table 2). It appears that overtime, there is an increase in tax payers opting for this tax.

Table 2: When did you start paying turnover tax?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2012	1	1.8	1.9	1.9
	2013	2	3.6	3.7	5.6
	2014	6	10.9	11.1	16.7
	2015	2	3.6	3.7	20.4
	2016	3	5.5	5.6	25.9
	2017	4	7.3	7.4	33.3
	2018	4	7.3	7.4	40.7
	2019	13	23.6	24.1	64.8
	2020	6	10.9	11.1	75.9
	2021	13	23.6	24.1	100.0
		Total	54	98.2	100.0
Missing	System	1	1.8		
Total		55	100.0		

Source: Researcher

The result of taxpayers level of education is presented in table 3. First, level of education indicates the ease with which respondents would respond to the questions in the survey. All respondents went beyond primary education most being undergraduate (34.6 percent) and technical or vocational (28.8 percent) (see table 3). Second, it indicates the capacity to understand and comply with tax rules. We expect any tax payer with secondary education and above to be able to understand basics of taxation or to be aware that there are professional who assist on tax matters.

Table 3: What is your level of education?

	Frequency	Percent	Valid Percent	Cumulative Percent
Secondary	9	16.4	17.3	17.3
Technical/ Vocational	15	27.3	28.8	46.2
Valid Undergraduate	18	32.7	34.6	80.8
Postgraduate	9	16.4	17.3	98.1
Other	1	1.8	1.9	100.0
Total	52	94.5	100.0	
Missing System	3	5.5		
Total	55	100.0		

Source: Researcher

Turnover tax is popular with those businesses with a turnover of between five hundred thousand shillings (Kshs. 500, 000) and one million shillings (45.5 percent) and less popular with those with a turnover of shs. 4 million (see table 4). Only 5.5 percent with a turnover of between Kshs. 4 million to Kshs. 5 million opt for turnover tax. This suggest that those with higher turnover opt for other taxes.

Table 4: Turnover per Year

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Between Kshs. 500,000 to Kshs. 1 million	25	45.5	45.5	45.5
Between Kshs. 1 million to Kshs. 2 million	13	23.6	23.6	69.1
Valid Between Kshs. 2 million to Kshs. 3 million	11	20.0	20.0	89.1
Between Kshs. 3 million to Kshs. 4 million	3	5.5	5.5	94.5
Between Kshs. 4 million to Kshs. 5 million	3	5.5	5.5	100.0
Total	55	100.0	100.0	

Source: Researcher

4.4 Factors Affecting Turnover Tax

There were seven variables in this study namely; tax payer's level of income, tax payer's level of education, tax rate, tax benefit, tax audit and penalties, moral and ethical reasons and perceived fairness of taxes captured through a psychometric instrument. The assumption is that the variables are identified as factors affecting turnover tax compliance. Under each variable are items, presented in terms of close ended questions. Close ended questionnaire was employed to capture the perception of taxpayers on turnover tax compliance. This enabled scaling of responses as follows:

Strongly agree =1; Agree =2; Neutral =3; Disagree =4 and Strongly Disagree =5.

This being a survey, descriptive statistics was employed. The Frequencies procedure is used to provide statistics useful for describing factors and items constituting the factors. For example, under the variable, tax payers level of income, there are five items (questions), see table 5. The frequency table shows the precise frequencies for each category or item

4.4.1 Tax Payers Level of Income

Table 5 provide description of variable that capture respondent's attitude to taxpayer's level of income as a determinant of turnover tax compliance. Forty-six (46) percent of respondents disagree that they do not pay tax because they do not qualify; however almost thirty one (31) percent (11% plus 20%) agree that at times they do not qualify to pay turnover tax. This is a pointer that fluctuations in turnover cannot be ignored in a decision to pay turnover tax or not. The standard deviation of the question TPLI 1 (1.31) which is greater than 1, confirm lack of agreement amongst respondents. A substantial number of respondents agree that instances arise when they qualify to pay turnover tax, 40 percent (15% plus 25%) but they opt for other taxes; The other 40 percent disagree (see variable TPLI 2. Eighty-nine (89) percent see (Variable TPLI 3) agree that fluctuations in sales is important in deciding to pay turnover tax, a standard deviation of 0.85 suggests concurrence on this issue amongst respondents.

Table 5: Frequencies- Tax Payers Level of Income

		Strongly agree	Agree	Neutral	Dis-agree	Strongly Disagree	Total		
	N	1	2	3	4	5			
		%	%	%	%	%		Mode	Std Devi-ation
At times I do not pay turnover tax because I do not qualify (TPLI 1)	54	11	20	4	46	19	100	4	1.31
At times I qualify to pay turnover tax but I opt for other taxes(TPLI 2)	55	15	25	7	40	13	100	4	1.33
Fluctuations in sales make it difficult complying with turnover tax requirements(TPLI 3)	55	38	51	5	4	2	100	2	0.85

Source: Researcher

4.4.2 Tax payers level of education

Education refer to tax education, specifically knowledge and skills that shape taxpayers attitude towards tax compliance. The objective was to establish whether tax payer level of tax awareness affect their turnover tax compliance. Under this variable are eight questions, starting with TPLE1 to TPLE8 as shown in table 6

Table 6: Tax Payers Level of Education

		Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Do not know	Total		
	N	1	2	3	4	5	6		Mode	St. Deviation
	Valid	%	%	%	%	%	%	%		
KRA does not provide enough information on turnover tax (TPLE1)	55	9	15	9	47	18	2	100	4	1.26
KRA provides information that is difficult to follow (TPLE2)	55	9	15	24	44	9		100	4	1.12
I have to rely on tax consultants to file tax returns(TPLE3)	55	18	27	9	38	7		100	4	1.30
I am comfortable filling turnover tax returns(TPLE4)	54	43	22	17	7			100	2	1.12
The turnover tax bill is always higher than what I expect to pay(TPLE5)	55	15	25	27	25	5	2	100	3	1.22
I understand the rules governing turnover tax(TPLE6)	55	18	47	20	11	4		100	2	1.02
Turnover tax is complicated(TPLE7)	55	13	24	20	31	11	2	100	4	1.29
The sensitization sessions offered by KRA are inadequate(TPLE8)	55	11	22	16	35	16		100	4	1.28

Source: Researcher

The findings are that KRA provide enough information on turnover tax, sixty five (65) percent (47% plus 18%) disagree that KRA does not provide enough information, see variable TPLE1 in table 6. Asked whether KRA provide information that is difficult to follow (TPLE 2), fifty-three (53) percent (44% plus 9%) disagree, yet twenty four (24) percent were indifferent, with another, twenty four (24) percent (9% plus 15%) agreeing that it is difficult understanding the information provided. On tax payers level of education understanding rules governing the turnover tax (TPLE 6), sixty five (65) percent (47% plus 18%) agree that they do. It is apparent that the taxpayers find tax information difficult (TPLE2), they are able to observe tax rules and are comfortable filling tax returns (TPLE4). On use of consultants (TPLE 3) there is no clear cut agreement confirmed by the

highest standard deviation (1.30). In terms of sensitization offered by KRA, fifty one (51) percent (35% + 16%) find the minadequate and this could impact compliance (TPLE 8). Forty (40) percent of respondents agree that the turnover tax bill they get from KRA is higher than expected. There appears to be no agreement on whether the turnover tax bill is always higher than what I expect to pay (TPLE5), the highest frequency is neutral at twenty seven (27) percent.

4.4.3 Tax Rate

This variable has five items in the form of questions, (TR1 to TR5) and presented in table 7. It is the opinion of tax payers that the current tax rate is high, at least sixty nine (69) percent (25% plus 44%) agree whereas only eighteen percent (18) disagree that the tax rate is high (see TR 1). This response is confirmed in the next question (TR 2) that show that eighty five (85) percent (47% plus 38%) disagree that the tax rate is low with a lowest standard deviation of 0.74 which is less than one (1) the respondents concur on their response. There should be a review of turnover tax rate every year, see variable (TR5).

Table 7: Tax Rate

		Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Do not know	Total		
	N	1	2	3	4	5	6		Mode	St. Deviation
	Valid	%	%	%	%	%	%	%		
The current turnover tax rate is high (TR1)	55	25	44	7	18	5	0	100	2	1.21
The current turnover tax rate is low (TR2)	55		2	13	47	38	0	100	4	0.74
The current turnover tax rate should be lower (TR3)	55	7.27	20	25.5	40	7.27	0	100	4	1.08
The current turnover tax rate should be lowered as turnover increases (TR4)	55	29.1	38.2	3.64	18.2	9.09	1.82	100	2	1.41
The current turnover tax rate should be reviewed yearly (TR5)	55	34.5	30.9	12.7	7.27	0	14.5	100	1	1.70

Source: Researcher

4.4.4 Tax Benefits

Tax benefits are thought to drive turnover tax compliance. Taxpayers attitudes on tax benefits was sought by asking three questions (TB 1 to TB 3) and responses summarized in table 8 and table 8b. Twenty two (22) percent of respondents are indifferent as to whether government make proper use of tax collected (TB 1) yet sixty three (63) percent (36% plus 27%) think that the government do not make proper use of taxes. Fifty-six (56) percent of respondents (47% plus 9%) are not willing to pay more taxes even if the government make proper use of taxes (See TB 2); however, the majority agree ninety (90) percent, that they will pay more tax if tax benefits are increased (TB 3). In table 8b, the correlation between the score to the questions Government make proper use of tax collected (TB1) and I would be more willing to pay taxes if government make good use of taxes (TB2) is statistically significant (0.386*), meaning that tax benefit is a factor in turnover tax compliance. The highest correlation is between TB2 and TB1, at 0.731, that is respondents are willing to pay more tax only if the government increases tax benefits.

Table 8: Tax Benefits

		Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Do not know	Total		
	N	1	2	3	4	5	6		Mode	St. Deviation
	Valid	%	%	%	%	%	%	%		
Government make proper use of tax collected(TB1)	55	5	9	22	36	27		100	4	1.13
I would be more willing to pay taxes if government make good use of taxes(TB2)	55	5	13	22	47	9	4	100	4	1.12
I would be more willing to pay taxes if government increases tax benefits(TB3)	55	55	35	2	7		2	100	1	1.03

Source: Researcher

Table 8b: Correlations

		Government make proper use of tax collected (TB1)	I would be more willing to pay taxes if government make good use of taxes (TB2)	I would be more willing to pay taxes if government increases tax benefits (TB3)
Government make proper use of tax collected (TB1)	Pearson Correlation	1	.386**	-.157
	Si g (2-tailed)		.004	.252
	N	55	55	55
I would be more willing to pay taxes if government make good use of taxes (TB2)	Pearson Correlation	.386**	1	.047
	Si g (2-tailed)	.004		.731
	N	55	55	55
I would be more willing to pay taxes if government increases tax benefits (TB3)	Pearson Correlation	-.157	.047	1
	Si g (2-tailed)	.252	.731	
	N	55	55	55

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

Source: Researcher

4.4.5 Tax Audit and Penalties

Taxpayers' perception of tax audit and penalties are presented in table 9. This variable was broken down into six (6) questions, (TAP1 to TAP6) and presented in table 9. Fifty-eight (58) percent (13% plus 45%) agree that the audits and penalties are fair and accurate (TAP1), this mean that a substantial portion of tax payers do consider this tax as fair and accurate. However, twenty five (25) percent (18% plus 7%) and this is substantial find tax audit not fair and accurate (TAP1).

Table 9: Tax Audit and Penalties

		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Do not know	Total		
	N	1	2	3	4	5	6		Mode	St. Deviation
	Valid	%	%	%	%	%	%	%		
Tax audit are fair and accurate(TAP1)	55	13	45	15	18	7	2	100	2	1.23
KRA Tax audit make me declare the correct amount of tax payable(TAP2)	55	11	60	18	4	5	2	100	2	1.05
I would declare the correct amount of taxable income if penalties are increased(TAP3)	55	11	13	13	42	18	4	100	4	1.33
KRA Tax audit uncover non tax compliance(TAP4)	55	27	44	9	11	7	2	100	2	1.29
KRA Tax penalties are heavy(TAP5)	55	60	33	4	2	0	2	100	1	0.90
KRA Tax audits border harassment and disrupt business operations(TAP6)	55	40	24	5	24	4	4	100	1	1.48

Source: Researcher

There are seventy one (71) percent (11 % plus 60%) who agree that KRA tax audit induce the mt o declare the correct amount of tax payable (TAP2), eighteen (18) percent are neutral. However, increasing penalties might discourage tax payers from filling correct amount in tax returns; but twenty four (24) percent (11 % plus 13%) agree that penalties encourage turnover tax compliance (TAP3). There is agreement that tax audit unearth noncompliance (TAP4), however ninety three (93) percent (60 % plus 33%) find penalties heavy (TAP 5). Nevertheless, tax audit by KRA border harassment and disrupt taxpayer business, at list sixty four (64) percent (40 % plus 24%) of respondents think so (TAP 6).

4.4.6 Moral or Ethical Reasons (MER)

The second last variable captured respondents' perception of moral and ethical reasons for turnover tax compliance; this variables is split into five items, MER1 to MER5 and presented in table 10. Eighty (80) percent of respondents (35 % plus 45%) agree that tax evasion is widespread (MER1) and a lower standard deviation confirm high level of concurrence. Even though tax evasion is

widespread, taxpayers sampled consider it unethical and unacceptable not paying taxes, ninety five (95) percent of respondent feel so (MER 2). Morals should play role in tax compliance (MER 3), that is, it is immoral not to pay tax (MER 4). It is surprising that the majority eighty two (82) percent (27% + 55%) pay taxes without being followed (MER 5).

Table 10: Moral or Ethical Reasons

		Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Do not know	Total		
	N	1	2	3	4	5	6		Mode	St. Deviation
	Valid	%	%	%	%	%	%	%		
Tax evasion is widespread (MER1)	55	35	45	9	11			100	2	0.94
Tax evasion is unethical and unacceptable (MER2)	55	51	44	2	4			100	1	0.71
Morals play role in tax compliance (MER3)	55	33	42	16	5	2	2	100	2	1.09
It is immoral not to pay tax (MER4)	55	35	51	9	4		2	100	2	0.94
I pay taxes without being followed (MER5)	55	27	55	15	2	2		100	2	0.82

Source: Researcher

4.4.7 Perceived Fairness of Tax

The meaning of fairness is contextual, however in this study, it is effectiveness of the tax costs from taxpayers' perspective. Tax costs should be fair. This variable was broken down into six questions or items, PFT1 to PFT6 and the frequencies presented in table 11. When asked whether KRA is fair in handling tax issues (PFT 1) twenty two percent (22%) of the respondents are indifferent, however sixty two (62) percent (11% + 51%) agree that KRA is fair; this is same as those who agree that time spent filing turnover tax return is reasonable (PFT 2). Variable PFT 3 is the opposite of PFT 2 and two are in tandem. Unfairness of turnover tax does not largely explain why taxpayer choose other taxes (PFT 5). A reasonable number of respondents disagree that turnover tax is less than what would have been paid if alternative tax is chosen (PFT 5). There is lack of agreement as to whether business expenses (PFT 6) is important in deciding to opt for turnover tax, a standard deviation of 1.50 confirms this.

Table 11: Perceived fairness of Tax

		Strongly agree	Agree	Neutral	Dis-agree	Strongly Disagree	Do not know	Total		
	N	1	2	3	4	5	6		Mean	St. Deviation
	Valid	%	%	%	%	%	%	%		
KRA treats me fairly when handling tax issues (PFT1)	55	11	51	22	7	7	2	100	2	1.14
The time you spent completing your turnover tax return is reasonable (PFT2)	55	9	53	24	7	4	4	100	2	1.12
Is The time you spent completing turnover tax return unreasonable (PFT3)	55	4	16	13	51	15	2	100	4	1.10
You do not opt for turnover tax because it is not fair (PFT4)	55	5	15	16	51	9	4	100	4	1.14
Turnover tax is less than what I would pay if I choose other taxes (PFT5)	55	9	27	16	35	5	7	100	4	1.36
This tax is unfair because it ignores business expense (PFT6)	55	25	16	11	35	9	4	100	4	1.50

Source: Researcher

4.5 Summary of Mean Responses

In the preceding section, frequencies were used to capture factors that impact on turnover tax compliance. In the next section is presented mean responses. The assumption is that to find meaningful mean and standard deviation are calculated. In addition, because it is hard interpreting the standard deviation, coefficient of variation (CV) is computed. CV enable ranking of variables with same mean but different standard deviation. The CV is standardized variability, while mean and standard deviation measure central tendency. However, for interpreting the mean responses, the scale below was employed:

- 1.00 to 1.8 – Strongly agree
- 1.81 to 2.6 – Agree
- 2.61 to 3.40 – Neutral
- 3.41 to 4.20 – Disagree
- 4.21 to 5 – Strongly disagree

The five-point likert scale is an interval scale. In such a scale the mean is significant. The scale of 1 to 1.8 means the respondent strongly agree; from 1.81 to 2.6 it means agree; from 2.61 to 3.4 is neutral; from 3.41 to 4.20 means disagree; and 4.21 to 5 means strongly disagree. The results are presented in table 12. The scale above is relied on to interpret means in tables 12 and 13.

In table 12, the first global variable namely tax payer level of income (TPL) is decomposed into three questions. The first question (TPLI 1) has a mean of 3.41 this means that the majority of respondents disagree that at times they do not qualify to pay turnover tax; the coefficient of variation (0.38) tell us respondents show concurrence attitude. For question two (TPLI 2) the mean is 3.11 and co-efficient of variation of 0.43, that is respondents neither agree nor disagree that even when they qualify for turnover tax they opt for other taxes. For question three (TPLI 3) the mean is 1.8 that is, strongly agree that fluctuations in sales make it difficult complying with turnover tax requirement. These findings are same as the ones reported above.

The second variable is tax payers level of education (TPLE) broken into eight questions (variables). (See table 12). The first question (TPLE 1) have a mean of 3.52 and a low coefficient of variation of 0.35, therefore the majority of respondents disagree that KRA does not provide enough information on turnover tax. The respondents neither agree nor disagree that they use tax consultants (TPLE 3), the coefficient of variation is low 0.34. The same score applies to difficulty of information supplied by KRA (TPLE 2, TPLE 4 and TPLE 5). They are not clear as to whether tax bill is high or low Interms of what was expected (TPLE 5) The taxpayers do not find turnover tax complicated (TPLE 7). The sensitization sessions are adequate (see TPLE 8).

Table 12: Descriptive Statistics on Attitudes Towards Factors Affecting Turnover Tax Compliance

Variable	Items	N	Minimum	Maximum	Mean	Std Deviation	Co-efficient of Variation
TAXPAYERS LEVEL OF INCOME (TPI)	At times I do not pay turnover tax because I do not qualify (TPI1)	54	1	5	3.41	1.31	0.38
	At times I qualify to pay turnover tax but I opt for other taxes (TPI2)	55	1	5	3.11	1.33	0.43
	Fluctuations in sales make it difficult complying with turnover tax requirements (TPI3)	55	1	5	1.8	0.85	0.47
TAXPAYERS LEVEL OF EDUCATION (TPLE)	KRA does not provide enough information on turnover tax (TPLE1)	54	1	5	3.52	1.22	0.35
	KRA provides information that is difficult to follow (TPLE2)	55	1	5	3.29	1.12	0.34
	I have to rely on tax consultants to file tax returns (TPLE3)	55	1	5	2.89	1.30	0.45
	I am comfortable filling turnover tax returns (TPLE4)	54	1	5	2.67	1.12	0.42
	The turnover tax bill is always higher than what I expect to pay (TPLE5)	54	1	5	2.81	1.15	0.41
	I understand the rules governing turnover tax (TPLE6)	55	1	5	2.35	1.02	0.44
	Turnover tax is complicated (TPLE7)	55	1	6	3.09	1.29	0.42
	The sensitization sessions offered by KRA are inadequate (TPLE8)	55	1	5	3.24	1.28	0.39
TAX RATE (TR)	The current turnover tax rate is high (TR1)	55	1	5	2.35	1.21	0.51
	The current turnover tax rate is low (TR2)	55	2	5	4.22	0.74	0.17
	The current turnover tax rate should be lower (TR3)	55	1	5	3.2	1.08	0.34
	The current turnover tax rate should be lowered as turnover increases (TR4)	54	1	5	2.39	1.34	0.56
	The current turnover tax rate should be reviewed yearly (TR5)	47	1	4	1.91	0.95	0.50

The third global variable broken down into five questions is tax rate, TR (see table 12). Respondents agree that the current turnover tax rate is high (TR 1) with mean of 2.35 and the current turnover tax rate should be lower as turnover increases (mean 2.39). Not surprising is their lack of agreement that turnover tax rate should be lowered (TR 3 mean 3.2).

The fourth variable, broken down into three questions was influence of tax benefits (TB) on turnover tax compliance table 12. Government does not make proper use of taxes collected TB 1, with a mean of 3.71. There is unwillingness to pay more turnover tax even if the government is making good use of taxes, TB 2, of taxes (mean of 3.43), suggesting that the tax rate could be higher. But if tax benefits are created the respondents will be willing to pay more tax (TB 3).

The fifth variable was about tax audit and penalties (TAP). There is no agreement as to whether the tax audits are accurate and fair. The respondents neither agree nor disagree that tax audit are accurate and fair, mean of 2.61 (TAP 1). Tax payers would not declare the correct amount of taxable income if penalties are increased (TAP2), mean of 2.31, but not likely to make correct declarations just because penalties are increased (TAP3). It is clear that tax audit uncovers non tax compliance TAP 4 with a mean of 2.26. Tax penalties are considered heavy by respondents TAP 5 mean of 1.46. The tax payers feel harassed during audits by KRA, TAP 6 with a mean of 2.25.

The next variable is on moral and ethical reasons for not complying with turnover tax requirements (MER) see table 12. The respondents agree that tax evasion is widespread (MER 1) mean of 1.96 and that tax evasion is unethical and unacceptable (MER 2), mean 1.58; and that morals play role in tax compliance (MER 3). The means of variables MER 4 and MER 5 tells us that it is immoral not to pay tax (1.81) and that there is no need to follow taxpayers 1.96

The final variable is on perceived fairness of taxes (PFT). The results are presented in table 12. This variable is decomposed into six questions for the six questions, regardless of how the questions are framed, Turnover tax is perceived to be fair. This is in the context as to how taxes are handled (PFT 1) mean of 2.48, time spent filling the return PFT 2, mean of 2.42. Except there is lack of agreement on two issues, namely that the time spent on complying is unreasonable as turnover tax is higher relative to other taxes (see PFT 4 and PFT 5). They are unclear about leaving business expenses when computing this tax.

Table 13: (CONTI NUATI ON): Descriptive Statistics on Attitudes Towards Factors Affecting Turnover Tax Compliance

Table 12 (CONTI NUATI ON): Descriptive Statistics on Attitudes Towards Factors Affecting Turnover Tax Compliance							
Variable	Item	N	Minimum	Maximum	Mean	Std Deviation	Coefficient of Variation
TAX BENEFITS (TB)	Government make proper use of tax collected(TB1)	55	1	5	3.71	1.13	0.31
	I would be more willing to pay taxes if government make good use of taxes(TB2)	53	1	5	3.43	1.03	0.30
	I would be more willing to pay taxes if government increases tax benefits(TB3)	54	1	4	1.61	0.86	0.53
TAX AUDIT AND PENALTIES (TAP)	Tax audit are fair and accurate(TAP1)	54	1	5	2.61	1.16	0.44
	KRA Tax audit make ne declare the correct amount of tax payable(TAP2)	54	1	5	2.31	0.93	0.40
	I would declare the correct amount of taxable income if penalties are increased (TAP3)	53	1	5	3.45	1.26	0.37
	KRA Tax audit uncover non tax compliance(TAP4)	54	1	5	2.26	1.20	0.53
	KRA Tax penalties are heavy(TAP5)	54	1	4	1.46	0.66	0.45
	KRA Tax audits border harassment and disrupt business operations(TAP6)	53	1	5	2.25	1.33	0.59
MORAL ETHICAL REASONS (MER)	Tax evasion is widespread(MER1)	55	1	4	1.96	0.94	0.48
	Tax evasion is unethical and unacceptable(MER2)	55	1	4	1.58	0.71	0.45
	Morals play role in tax compliance(MER3)	54	1	5	2	0.95	0.48
	It is immoral not to pay tax(MER4)	54	1	4	1.81	0.75	0.42
	I pay taxes without being followed(MER5)	55	1	5	1.96	0.82	0.42
PERCEIVED FAIRNESS OF TAX (PFT)	KRA treats ne fairly when handling tax issues(PFT1)	54	1	5	2.48	1.04	0.42
	The time you spent completing your turnover tax return is reasonable(PFT2)	53	1	5	2.42	0.91	0.38
	Is the time you spent completing turnover tax return unreasonable(PFT3)	54	1	5	3.57	1.06	0.30
	You do not opt for turnover tax because it is not fair(PFT4)	53	1	5	3.45	1.05	0.30
	Turnover tax is less than what I would pay if I choose other taxes(PFT5)	51	1	5	3	1.15	0.38
	This tax is unfair because it ignores business expense(PFT6)	53	1	5	2.85	1.41	0.49

Source: Researcher

4.6 Factor Analysis

There were seven variables hypothesized as explaining turnover tax compliance. In which case it is important identifying significant overlap among the seven variables. Factor analysis was used to identify factors that explain the correlation within the variables. This helps establish a small number of factors that explain the variance observed in all seven variables. The other reason for factor analysis was to identify and remove redundant variables and replace entire data with a small number of un-correlated variables.

The mean scores for the seven variables were created by average scores of all questions under each variable, thus ending with seven variables whose means are presented in table 13 below TPLI, TPLE, TR, TB, TAP, MER and PFT as appears in the questionnaire.

Table 14: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Moral or Ethical Reasons (MER)	55	1.00	3.60	1.86	.56
Tax Audit and Penalties (TAP)	55	1.00	4.20	2.41	.61
Tax Payers Level of Income (TPLI)	55	1.00	5.00	2.78	.76
Tax Rate (TR)	55	2.00	3.80	2.85	.44
Tax Benefit (TB)	55	1.00	4.50	2.93	.64
Tax Payers Level of Education (TPLE)	55	2.00	4.13	2.98	.50
Perceived Fairness of Taxes (PFT)	55	1.80	5.00	2.99	.57
Valid N(list wise)	55				

Source: Researcher

It is the average of variables as presented in table 13 that are inputs to factor analysis.

The principal component extraction was employed and varimax method of rotation is used.

4.6.1 Sample Test of adequacy

The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy tests whether the partial correlations among variables are small. Bartlett's test of sphericity tests whether the correlation

matrix is an identity matrix, which would indicate that the factor model is inappropriate. The data subjected to factor analysis must satisfy these conditions.

Table 15: KMO and Bartlett's Test

Kaiser- Meyer- Olin Measure of Sampling Adequacy.		.709
Bartlett's Test of Sphericity	Approx. Chi-Square	93.713
	df	21
	Si g	.000

Source: Researcher

The result of sample test of adequacy test is presented in table 14. The KMO measure of 0.709 is above the cut off point of 0.05, meaning that the sample is adequate for factor analysis. The principal component extraction was employed and vari max method of rotation is used. Eigen value greater than one was requested.

4.6.2 Communalities

In table 15 is the proportion of each variable's variance that can be explained by the factors, namely communalities.

Table 16: Communalities

	Initial	Extraction
Tax Payers Level of Income	1.000	.609
Tax Payers Level of Education	1.000	.721
Tax Rate	1.000	.461
Tax Benefit	1.000	.551
Tax Audit and Penalties	1.000	.587
Moral or Ethical Reasons	1.000	.599
Perceived Fairness of Taxes	1.000	.689

Extraction Method: Principal Component Analysis.

Source: Researcher

Communalities show the amount of variance in each of the seven variables. The column initial show estimates of the variance in each variable accounted for by all factors. Extraction communalities indicate variance in each of the seven variable accounted for by the components. The tax payer level of education has the highest extraction communality (0.721) whereas tax rate show lowest extraction of 0.461, (table 15). The recommended communalities cut off value is 0.33, indicating that the extracted components in table 15 represent the variables well.

4.6.3 Eigenvalues

Table 17: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.79	39.91	39.91	2.79	39.91	39.91	2.23	31.79	31.79
2	1.42	20.32	60.24	1.42	20.32	60.24	1.99	28.44	60.24
3	0.81	11.61	71.85						
4	0.66	9.37	81.22						
5	0.60	8.56	89.78						
6	0.41	5.92	95.71						
7	0.30	4.29	100.00						

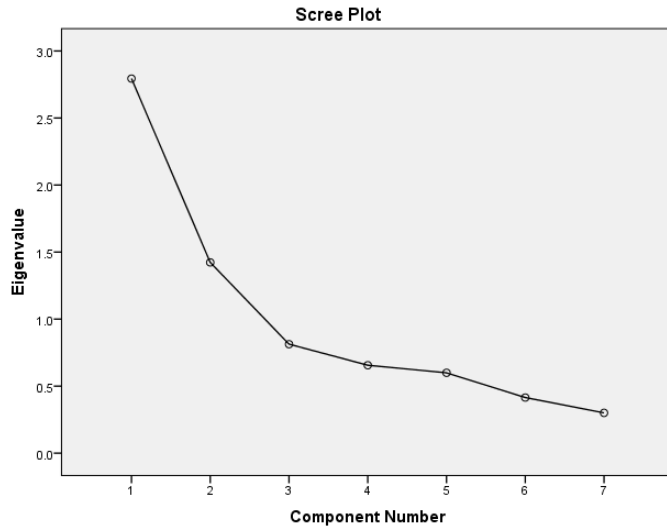
Extraction Method: Principal Component Analysis.

Source: Researcher

In table 16 are the variance explained by initial solution. The table show the initial Eigen values. The column shows amount of variance in original variables accounted for by each component. The cut-off for Eigen values was one (1), that is, Eigen values of less than one (1) means that the component does not explain reasonable variance and should not be retained. Therefore only two components, one (2.79) and two (1.42) significantly account for the variation (see table 16). The two components account for 60.24 percent of the variance. The first component account for 39.91 of the variance, while component 7 account for only 4.29% of the variance. Components 3 to 7 are dropped.

The scree plot confirms that only two components have Eigen value higher than one. The first two components are the ones on the steep slope and Eigen value greater than one. This means that the

component on the shallow slope do not contribute much to the solution. The last big drop occurs between components two and three.



4.6.4 Rotated Component Matrix

The next step is to establish which of the seven variables make up components 1 and 2. This is captured in rotated component matrix, with variable name and component (see Table 17). Rotated component matrix is useful in identifying what the components represent. The first component is mostly highly correlated with tax payers level of income (0.768) and tax payers level of education 0.841 that is tax payers level of education is a better representative and less correlated with the second component. The other factor related to first component is tax rate.677. Two component mean the item can be tax audit and penalties, moral or in ethical considerations and tax benefit is highly correlated with component 2. This suggests that KRA can focus on tax payer's level of education and tax audit and penalties in managing turnover tax compliance. Tax rate is a problem because it is loading both negatively and positively.

Table 17: Rotated Component Matrix^a

Variable	Component	
	1	2
Tax Payers Level of Income	.768	.139
Tax Payers Level of Education	.841	.114
Tax Rate	.677	-.051
Tax Benefit	.315	.673
Tax Audit and Penalties	.069	.763
Moral or Ethical Reasons	-.132	.762
Perceived Fairness of Taxation	.591	.583

Extraction Method : Principal Component Analysis.
Rotation Method : Vari max with Kaiser Normalization
a. Rotation converged in 3 iterations.

Component 2 include tax audit and penalties (0.763), moral or ethical reason (0.762) and Tax benefit (0.673). The findings suggests that KRA can focus on tax payers' level of education and tax audit and penalties in managing turnover tax compliance. Tax rate is a problem because it is loading both negatively and positively.

4.7 Discussion of Findings

The findings presented above suggests that tax payers level of income, tax payers level of education and tax rate are key determinants of turnover tax compliance. However the effect of tax rate as a factor is blurred. At times tax payers opt out of this tax if their turnover fall outside the threshold (TPLE 3); it is suggested that tax rules affect compliance. KRA provides enough information (TPLE 1) to enable tax payers understand rules governing turnover tax (TPLE 7). The findings support the argument by (Nadee and Premartna 2020) who found that fluctuation in taxpayer's level of income impact on tax compliance. Loo et al, 2014 found that educated tax payers tend to be tax compliant. (Gtaru 2017) found that taxpayers sensitization explain tax compliance. As was reported in the literature review tax rate is the center of conflict. The respondents became neutral on four questions under this section except that they all disagreed that the current turnover tax rate is low suggesting that tax payer would like to pay less tax as possible. It was (Yitzhaki 1974) argument that tax payers prefer a lower rate. Tax payers expect higher tax benefits and would like to see government employ their taxes productively. (Fochman and Kröll

2016) concluded that the use of tax benefits and rewards increase up to a point and then become negative.

The analysis filters widespread tax evasion, tax audit and penalties on defaulters deter tax evasion. This finding agree with (Asnawi 2016) who report an increase in tax compliance when the possibility of effective tax audit is real.

Moral or ethics play a role in tax evasion and tax payers agree that it is immoral not to pay tax. This tell us that even those who default on their taxes are aware that they are immoral. (Devos 2014) conclude that tax morals and tax fairness impact on taxpayers' compliance.

Tax payers agree that the time spent completing turnover tax return is reasonable. They disagree that their choice not to opt for this tax have nothing to do with how fair this tax is.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In chapter 4 the data captured through a questionnaire was analyzed, results presented and discussed. In this chapter, is the summary of the study, conclusions and recommendations.

5.2 Summary

The problem in this study was low turnover tax compliance. The objective was to establish factors that drive tax payers' decision to comply with turnover tax. Seven factors were identified prior, namely tax payers level of income, tax payers level of education, tax rate, tax benefits, tax audit and penalties, moral and ethics and perceived fairness of taxes. Apart from using descriptive statistics, the responses were subjected to factor analysis.

The findings show a group of variables that capture respondents perceptions; In group one (or 1st component) is tax payers level of education and tax payers level of income; and group two (or second component) is tax audit and penalties and morals or ethical reasons. These two groups of components used factor analysis terminology to capture 60 percent of respondent's turnover tax compliance concerns.

5.3 Conclusion

The concern for those enforcing turnover tax compliance is tax payer's level of education that is how conversant a tax payer is with turnover tax regulations. Tax payers level of income is an important factor, but neither the tax payer nor tax collector have control over this variable. The KRA should come up with visible tax benefits. Though tax payers feel that the government does not make proper use of tax collected, again both tax payers and tax collection might find it difficult influencing use of taxes by the government. Even though moral and ethics is an issue, taxpayers are not taking a categorical position on perceived fairness of taxes, tax audit and penalty as strong influencing variables.

The KRA need to strengthen its tax audit department because it enforces tax compliance. There is also a need for further education of tax payers as to why tax penalties are not heavy as they think; and education as to why it is moral to pay tax.

5.4 Recommendations

There should be investment in education that lead to tax awareness. Tax audit and penalty need to be strengthened. There is need to study how fair taxes are and taxpayers should not consider taxes as a burden. This study used a questionnaire largely to capture perception of the respondents and which carry the limitations of a qualitative study. A quantitative study need be done and results compared.

5.5 Limitation of the Study.

The findings and conclusions in these studies are based on a survey questionnaire. Survey questionnaire cannot be administered to those who are illiterate and might not have better responses. Respondents can change a previous answer if it contradicts the after answers. Average are used to summarize findings, but at times the answer could be an outlier.

5.6 Areas for Further study.

It is mentioned above that the researcher relied on a survey to identify factors impacting tax compliance. The next step would be to look at tax payer's record, establish the amounts they declare, pay and link the same to the factors that explain compliance.

REFERENCES

- Aclan, D & Levy, M (2013). *Naïveté, Projection Bias, and Habit Formation in Gym Attendance*. Unpublished Manuscript. University of California, Berkeley.
- Adams, J. S (1965). Inequity in social exchange. *Adv. Exp. Soc. Psychol.* 2: 267-99
- Aknes, F (2014). Tax Compliance, Enforcement and Taxpayer Education. Paper Presented at a Workshop organised by International Centre for Tax and Development, in Maputo, March, 30 – 31.
- Alam S (2021). An Examination of Taxpayers Attitude towards Income Tax: A Case of Bangladesh. *Acc. Fin. Review* 6(2) 95 – 110. Accessed on 6^h. June 2022 at file:///C:/Users/user/Downloads/SSRN-id3940901.pdf.
- Ali, MM, Cecil, H W & Knoblett, J. A (2001). The effects of tax rates and enforcement policies on taxpayer compliance: A study of self-employed taxpayers *Atlantic Economic Journal* volume 29, pp. 186–202
- Alinghama M & Sandmo, A (1972). Income Tax Evasion: A Theoretical Analysis, *Journal of Public Economics*, 1, 3/4, pp. 323-38.
- Alinghama MG & Sandmo, A (1972). Income tax evasion. *J Public Econ* 1(3–4): 323–338
- Alm J. & Torgler, B (2011). Do Ethics Matter? Tax Compliance and Morality. *Journal of Business Ethics* 101(4): 635-651
- Alm J., Jackson, B, & McKee, M (1992). Estimating the determinants of taxpayer compliance with experimental data. *National Tax Journal*, 45(1), 107-114.
- Al-Taffi, L H A, Bin-Nashwan, S A and Amrah, M R (2020). The influence of tax knowledge on tax compliance behaviour: A case of Yemeni individual taxpayers. *Journal of Business Management and Accounting* 10(2), 15-30.
- Asnawi, M (2016). Tax Compliance Decision Analysis: Audit Strategy, Audit Rate, Perceived Probability of Audit, and Taxpayer Ethics Information Management and Business Review 8(3): 11-21.
- Britannica (2022). Principles of taxation Retrieved from <https://www.britannica.com/topic/taxation/Principles-of-taxation>
- Brockmann, H Genschel, P. & Seelkopf, L (2016). Happy Taxation. *Journal of Public Policy* Vol. 36 No. 3 (September 2016), pp. 381-406. Retrieved from <https://www.jstor.org/stable/26775347>.

- Bryman, A & Bell, E (2007). *Business Research Methods*. (7th ed.) Oxford: Oxford University Press
- Carrillo, P., Castro, E & Scartascini, C (2016). Do Rewards Work to Maintain and Increase Tax Compliance? Evidence from the Randomization of Public Goods. Retrieved from <https://thedocs.worldbank.org/en/doc/334031466186945578-0050022016/original/scartascini.pdf>
- Cavalcanti, R & Andrés Erosa, A (2007). A theory of capital gains taxation and business turnover. *Economic Theory* Vol. 32, No. 3, pp. 477-496 (20 pages) Published By: Springer
- Clofelter, C.T. (1983). Tax evasion and tax rates, *Review of Economics and Statistics* 65: 363-373.
- Dell'Anno, R (2009). Tax Evasion, Tax Morale and Policy Maker's Effectiveness. *Journal of Socio-Economics* 38(6): 988-997.
- Devos, K (2014). Tax Compliance Theory and the Literature In book: Factors Influencing Individual Taxpayer Compliance Behaviour DOI: [10.1007/978-94-007-7476-6_2](https://doi.org/10.1007/978-94-007-7476-6_2)
- Doyle, E, Keegan, B & Reeves, E (2020). Tax compliance theories and fiduciary taxes Do the shoes fit? DOI: [10.4324/9781351107372-14](https://doi.org/10.4324/9781351107372-14)
- Eugenio J. M; Katja S; Thurk, Jeff, T (September 2018). Market Power and the Laffer Curve. Econometrica* 86 (5): 1651-1687.
- Fai zal, S M & Palil, MR. (2015). Study on Fairness and Individual Tax Compliance In Malaysia: Preliminary Findings International *Journal of Business, Economics and Law*, Vol. 8 Issue 1 (Dec), pp. 74-79 Retrieved from <http://ijbel.com/wp-content/uploads/2016/01/Acc-35.pdf>
- Fauziati, P., Minovia, A F., Misli m R Y, & Nasrah, R (2016). The impact of tax knowledge on tax compliance case study in Kota Padang, Indonesia. *Journal of Advanced Research in Business and Management Studies*, 2(1), 22-30.
- Feinstein, J.S (1991). An Econometric Analysis of Income Tax Evasion and Its Detection. *RAND Journal of Economics*, 22, 14-35. <https://doi.org/10.2307/2601005>
- Feld, L.P. & Frey, B.S (2007). Tax compliance as the result of a psychological tax contract: the role of incentives and responsive regulation. *Law & Policy* 29 (1), 102-120.

- Fochmann, M & Kröll, E B (2016). The effects of rewards on tax compliance decisions *Journal of Economic Psychology*. Volume 52, February 2016, Pages 38-55.
- Frey, B & Feld, L P (2002). Deterrence and Morale in Taxation: An Empirical Analysis. SSRN *Electronic Journal* DOI: 10.2139/ssrn.341380
- Frey, B S (2003). Deterrence and tax morale in the European Union, *European Review Cambridge University Press*, *vd. 11(3)*, pages 385-406.
- Gale, WG & Samwick, A A (2014). Effects of Income Tax Changes on Economic Growth. *Economic Studies at Brookings*. Retrieved from https://www.brookings.edu/wp-content/uploads/2016/06/09_effects_income_tax_changes_economic_growth_gale_samwick.pdf
- Gitaru, K (2017). The Effect of Taxpayer Education on Tax Compliance in Kenya. (a case study of SME's in Nairobi Central Business District). Retrieved from https://npra.ub.uni-muenchen.de/80344/1/MPRA_paper_80344.pdf
- Gluckman, A & Turner, M (2018). The perceived fairness of turnover tax. *Journal of Economic and Financial Sciences*, 11(1): 1-10. doi.org/10.4102/jef.v11i1.174.
- Gneezy, U S Meier & P. Rey-Bel. (2011). When and Why Incentives (Don't) Work to Modify Behavior. *Journal of Economic Perspectives—Volume 25, Number 4, Pages 191–210*. Retrieved from <https://thedocs.worldbank.org/en/doc/334031466186945578-0050022016/render/scartascini.txt>
- Harris, T. (2013). The effect of tax knowledge on individual's perceptions of fairness and compliance with federal income tax system. An empirical study. Unpublished manuscript. Retrieved from <https://www.semanticscholar.org/paper/The-effect-of-type-of-tax-knowledge-on-individuals%27-Harris/351a54578ef772fa5ebff9ed533c3dc6255cb79a>
- Hashimzade, N, Miles, G D, & Tran-Nam B (2013). Applications of Behavioural Economics to Tax Evasion. *Journal of Economic Surveys*, 27(5), 941-977.
- Hite, P. A (1995). Identifying and Mitigating Taxpayer Compliance, Paper Given at Australian Tax Compliance Conference, Canberra, December.
- Hudson, J. and Teera, J. M 2005. Measuring Compliance Costs of Taxation in *Encyclopedia of Social Measurement*. Retrieved from <https://www.sciencedirect.com/topics/economics-and-finance/compliance-costs>

- Jalio, T (2020). Turnover tax is more a business killer than tax evasion healer Retrieved from <https://www.the-star.co.ke/sasa/lifestyle/2020-03-13-turnover-tax-is-more-a-business-killer-than-tax-evasion-healer/>
- James, S (2012). Behavioural Economics and the Risks of Tax Administration. *eJournal of Tax Research*, 10(2), 345-363.
- James, S, & Aley, C (2002). Tax compliance, self-assessment and tax administration. *Munich Personal RePEc Archive*.
- Johns, A & Semrod, J. (2008). The Distribution of Income Tax Noncompliance. Retrieved from <https://core.ac.uk/download/pdf/208599905.pdf>
- Joshitta, R S M, Dvya, N & Princitta, R(2013). A Study on Individual Tax Payers' Attitude in Theni District : A Data Mining A Study on Individual Tax Payers'. *International Journal of Computer Science Research and Application*, Vol. 03, Issue. 03, pp 37-48.
- Kahneman D & Tversky A (1979). Prospect Theory: An Analysis of Decision under Risk *Econometrica* 47 (2): 263–292. doi:10.2307/1914185. JSTOR 1914185.
- Kassa, E T (2021). Factors influencing taxpayers to engage in tax evasion: evidence from Wolaita City administration micro, small, and large enterprise taxpayers. *Journal of Innovation and Entrepreneurship* volume 10.
- Kent W S & Karyl, A K (1987). Understanding Taxpaying Behavior: A Conceptual Framework with Implications for Research. *Law & Society Review* Vol. 21, No. 4 (1987), pp 639-663.
- Kenya Revenue Authority (2022). What is turnover tax? Retrieved from <https://kra.go.ke/helping-tax-payers/faqs/turnover-tax-tct#:~:>

Appendix I: LIKERT SCALE QUESTIONNAIRE

Variables	Questions (Items)	S A N D				
		1	2	3	4	5
TAXPAYERS LEVEL OF INCOME (TPI)	At times I do not pay turnover tax because I do not qualify (TPI1)					
	At times I qualify to pay turnover tax but I opt for other taxes (TPI2)					
	Fluctuations in sales make it difficult complying with turnover tax requirements (TPI3)					
TAXPAYERS LEVEL OF EDUCATION (TPE)	KRA does not provide enough information on turnover tax (TPE1)					
	KRA provides info that is difficult to follow (TPE2)					
	I have to rely on tax consultants to file returns (TPE3)					
	I am comfortable filling turnover tax returns (TPE4)					
	The turnover tax bill is always higher than what I expect to pay (TPE5)					
	I understand the rules governing turnover tax (TPE6)					
	Turnover tax is complicated (TPE7)					
	The sensitization sessions offered by KRA are inadequate (TPE8)					
TAX RATE (TR)	The current turnover tax rate is high (TR1)					
	The current turnover tax rate is low (TR2)					
	The current turnover tax rate should be lower (TR3)					
	The current turnover tax rate should be lowered as turnover increases (TR4)					
	The current tax rate should be reviewed yearly (TR5)					
TAX BENEFITS (TB)	Government make proper use of tax collected (TB1)					
	I would be more willing to pay taxes if government make good use of taxes (TB2)					
	I would be more willing to pay taxes if government increases tax benefits (TB3)					

TAX AUDIT	Tax audit are fair and accurate (TAP1)
AND	KRA Tax audit make me declare the correct amount of tax payable (TAP2)
PENALTIES	I would declare the correct amount of taxable income if penalties are increased (TAP3)
(TAP)	KRA Tax audit uncover non tax compliance (TAP4)
	KRA Tax penalties are heavy (TAP5)
	KRA Tax audits border harassment and disrupt business operations (TAP6)
MORAL	Tax evasion is widespread (MER1)
ETHICAL	Tax evasion is unethical and unacceptable (MER2)
REASONS	Morals play role in tax compliance (MER3)
(MER)	It is immoral not to pay tax (MER4)
	I pay taxes without being followed (MER5)
PERCEIVED	KRA treats me fairly when handling tax issues (PFT1)
FAIRNESS OF	The time you spent completing your turnover tax return is reasonable (PFT2)
TAX (PFT)	Is the time you spent completing turnover tax return unreasonable (PFT3)
	You do not opt for turnover tax because it is not fair (PFT4)
	Turnover tax is less than what I would pay if I choose other taxes (PFT5)
	This tax is unfair because it ignores business expense (PFT6)

SA- Strongly agree =1; A- Agree = 2; N- Neutral = 3; D- Disagree = 4 and SD- Strongly Disagree =5