

EFFECTS OF ELECTRONIC TAX FILING SYSTEMS ON COMPLIANCE
AMONGST SMALL AND MEDIUM ENTERPRISES WITHIN MOMBASA
CENTRAL BUSINESS DISTRICT

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DECLARATION

This research study is my original work and has not been presented to any other institution. No part of this research should be produced without the author's consent or that of the University of Nairobi.

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Declaration by the Supervisor and Management

This research project has been submitted with my approval as the University of Nairobi supervisor.

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DEDICATION

I dedicate this project to my parents Mama Clementina A. Odongo and Dad (late) Andrew Paul Odongo; words cannot fully describe what I feel for you. Because of you I learned hard work at very tender age and for that reason I have made it this far in education.

Bravo dad and mum!!

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God bless you all.

LIST OF ABBREVIATIONS

ADR	-	Alternative Dispute Resolution
CBD	-	Central Business District
e-FILE	-	Electronic File
ICT	-	Information Communication Technology
IRS	-	Internal Revenue Service
iTAX	-	Integrated Tax System
KRA	-	Kenya Revenue Authority
LTO	-	Large Taxpayers Office
OECD	-	Organization for Economic Cooperation and Development
SME	-	Small and Medium Enterprises
TOT	-	Turnover Tax

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ABSTRACT

This study investigates empirically the influence of online tax filing and payment system supported by taxpayer education programs on individual taxpayers' compliance in Kenya to disclose factors responsible for noncompliance among Small and Medium enterprises category. For the researcher to fully understand the depth of the phenomenon, the approach of the study besides the usual tax compliance model also expounds the perceived benefits of electronic filing system and taxpayer education programs with attention to their relationship. The statistical regression analysis was applied to the questionnaire-generated primary data. The analysis was applied to test the effect of online tax filing systems on taxpayer compliance behaviour among the small and medium taxpayer category in Kenya. Taxpayers' knowledge about computation of tax due on their income earned from different sources and mastery of filing procedures was used to measure Tax Education level. The results revealed that taxpayers' knowledge on electronic filing and payment system gained through relevant training programs by KRA is significantly related to the tax compliance patterns. The study concludes with several recommendations for enhanced tax training exercise extending to diverse groups including managerial level with a view to enhance their understanding in taxation systems in place. Further, specific policies should be formulated to address taxpayer education to engrain the taxpayers' duty and obligation under various tax regimes in Kenya.

Keywords: Tax gap, tax system, taxpayer compliance, enforcing compliance.

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Taxation is a key element in managing national income and a national function by which funds needed for fiscal purposes are accumulated by both developing and developed countries. The taxes, either direct or indirect, so raised are directed to development programs hence the economic growth of any country primarily depends on income taxes. The introduction of electronic tax filing and payment systems and vigorous taxpayers education in its are important steps in realizing tax targets for a government. The system calls for certain infrastructure to function effectively and achieve desired goals. Further the success of the system might face setbacks where not everyone has broadband access. The implementation of electronic tax filing and payment system had been fully successful in 84 countries by 2014, the last five years have seen 53 economies undertake 70 reforms either introducing or enhancing electronic systems for filing and paying taxes. More than a third of these economies adopted an electronic tax filing for the first time (WBG & PwC). Taxpayers' compliance is key to raising public finances to enhance economic stability (Omoigui 2007).

Wasao (2014), defines online tax filing system as an electronic platform facilitating taxpayers use with respect to accessing all online services via the internet including registering and obtaining a personal identification number, lodging filled returns, applying for and printing compliance certificates. A perfect example of such system is the Electronic taxation system that was rolled out in 2013 by the Kenya Revenue Authority. Kenya Revenue Authority for instance as one of the financial authorities in

the world conducts this Electronic tax system through the Business Process Improvement (BPI) and increases scope of electronic interaction with taxpayers to boost staff productivity and taxpayer service. Online information systems can only remain relevant if constantly reviewed and upgraded to incorporate enhanced attributes. In their study, Belanger, et al (2006) advanced the argument that the usefulness of any online system depended on various success criteria in order to achieve its objectives in key areas of information dissemination, advertisement and selling. Given that an online system is designed for a specific audience or users its success can only be gauged against the feedbacks and perspectives from users and owners. On certain occasions these perspectives compete like in the case of electronic tax filing systems users lack of excitement in paying their tax due while on the other hand the government who are the site owner eagerly move to collect it.

Key theories underpinning this study are broadly classed under, economic-leaning theories also referred to as deterrence theory and psychology-based theories. Economic-based theories underscore incentives that influence tax compliance while on the other hand Psychology-based theories deal with attitude (Trivedi & Shehata, 2005). A study by Trivedi et al. (2005) found out that the consequences accruing to different compliance choices entailed economic-theories guided step of whether or not to evade tax. The step is taken in relation to the possibility of detection and the magnitude of the attending economic consequences. In this “play the audit lottery” scenario the taxpayer tends to be guided by the choice of expected returns maximization ideally after-tax returns taking into account the tolerable risk level. The theories recommend intensifies audits and penalties as a strategy for enhancement of compliance noting that taxpayers are amoral maximizers of utility. It further states that taxpayers behaviour is influenced by motives of economic nature including desire

to maximize profit and the level of probability that the authority would detect evasion (Trivedi et al., 2005), incorrect reporting (Erard et al., 2005), the informal sector of the economy players (Etchberry, 1992) among other factors.

Psychology based studies on the other hand state that moral and ethical factors greatly influence the behaviour of taxpayers leading to adequate compliance even in the absence of threats of potential audits. These theories de-emphasize the role of audits on compliance and instead focuses on the changing attitudes of taxpayers toward tax systems. Trivedi et al., (2005) identified a middle ground with some taxpayers resonating with economic theories while others respond to the psychological factors with a possibility of a mixture of the two.

In Kenya Electronic tax filing systems have netted record registered taxpayers of 4.2 million by close of 2015/16 up from 1.6 million by end of 2014/15 fiscal year. The corresponding revenue collection is Kshs. 1.21 Trillion by close of 2015/16 up from Kshs. 1.069 Trillion by end of 2014/15 fiscal year, posting an increase of Kshs. 141 Billion. (KRA2016). The online tax filing system has greatly benefited both individual and business taxpayers in cutting down their compliance costs. Ideally, processing paper returns costs the KRA Kshs. 300.00 per return versus taxpayer's cost of Kshs. 100.00 for e-filing. Where close to 100 percent electronic filing response can be achieved, tax administrators would substantially reduce filing and data processing costs by 65 percent per return. It has been observed that online tax filers tend to suffer less than 2.5% of error rate as opposed to more than 25% filing with paper return. IRS confirms that revenue would increase considerably if all returns were filed electronically.

1.1.1 Electronic Tax Filing Systems

The electronic taxation systems are currently adopted by governments across the globe with increasing frequency to aid in their tax revenue collection. These systems are popular with governments since they mitigate the mistakes that are rampant with manual filing, and they help to prevent tax evasion by data matching (Manly et al, 2005).

The downturn in economies across the globe has resulted in reduced tax base. The revenue targets have consequently suffered owing to lower corporation tax and PAYE collections. As a result countries have come up with a raft of reforms to boost taxpayers' compliance with their tax obligations. Key among these reforms is the introduction of online filing platform. Kenya, on her part, has introduced iTax online filing system. The success of the KRA automated tax services system and the achievement of the tax targets will ultimately depend on the peak iTax registration rate coupled with the efficiency of the online platform. KRA's online filing system is designed to increase tax compliance and close tax leakages exploited by tax evaders. The authority through public awareness drives is keen on helping taxpayers comply rather than pursue punitive methods of collecting taxes (KRA 2015). By registering tax agents who prepare and e-file tax returns for the taxpayers without a computer-internet link and sustaining taxpayer assistance programs, KRA have indeed achieved a remarkable milestone. In Africa today, South Africa, Uganda, Nigeria, Rwanda and Kenya have fully embraced the systems. (Muita, 2011).

In a study by Kariuki (2013), it is stated that ICT plays a vital role in the revenue administrations through its versatile nature that avails accessible data in both historical and current categories, reduces computation errors, reduces data

processing time and mitigating overall costs. It is further noted in the study that there is improved client service and voluntary tax compliance resulting in increased revenue collections and reduced frequency of interaction between the authority staff and the taxpayers thereby facilitating the decision making process.

The electronic tax filing system plays an important role in providing periodic summaries for both the taxpayers and the authority leading to faster computation of tax payable and credits where applicable. The impact of the electronic tax filing system will be evident and measured by the number of taxpayers on the system, the revenue collection data, taxpayer compliance costs and taxpayer error rate. It is confirmed in a study carried out by Fjeldstad (2013) that an effective revenue collection system has played a major role in mobilizing domestic taxes in most emerging economies leading to sustainable development programs.

1.1.2 Tax Compliance

OECD (2004) & Alink and Kommer (2011) explain that tax compliance can be defined by how best a taxpayer responds to the four key obligations; first, Taxpayer profile registration; Second, Promptness in filing the tax returns; Third, Accurate and complete reporting of information; and fourth, Remittance of the tax due on time. Tax compliance can take any of the three forms i.e. committed, creative and capitulative (McBarnett 2003). Committed compliance on the part of a taxpayer refers to their readiness comply with tax laws and regulations and pay the taxes accordingly. Creative approach refers to the steps a taxpayer would take to reduce taxes by reducing their tax liability (tax avoidance). Finally, capitulative compliance is the reluctance on the part of a taxpayer in discharging their tax burden (tax evasion).

KRA have come up with certain initiatives to enhance tax revenue collection since its establishment in 1995. Among these initiatives are measures to avail sufficient information to taxpayers through taxpayer education including assistance programs such as public relation drives and “taxpayers’ month”. Importance of taxpayer education has been augmented by the establishment of self-assessment for various tax regimes. These measures empower the taxpayer to handle the online filing processes with relative simplicity compared to the manual system. The taxpayer service under policy division has existed in KRA and tasked with educating public among other functions. The taxpayer is reached by way of guides and leaflets, tax clinics in an effort to address taxpayers’ concerns and affirm KRA’s position and expectations. This feat is achieved through different media which include radio programs, television, newspapers, websites, seminars, tax workshops and front desk which helps in passing key information to the public. The taxpayer education and assistance programs are carried out by specially trained units within the revenue departments (KRA, 2015).

1.1.3 Electronic tax filing Systems and Compliance

Taxpayer education and assistance program is one of the methods adopted by countries to improve their service delivery to the citizens. Voluntary tax compliance largely depends on the suitability of service delivery by the authority. The authority resorts to costly and coercive methods of collecting taxes where the voluntary compliance is not cultivated (Fjeldstad and Ranker, 2003). Thus, a taxpayer education and assistance program is suitable method of keeping the public up-to-date with tax laws and regulations.

Taxpayer education and assistance programs efforts have been complemented by the inclusion of units on taxation in the Kenya university education curriculum and specially designed post graduate diploma programs in Customs and Tax administration by Kenya School of Revenue Administration (KESRA). These programs enhance the taxpayers grasp of the assessment policies and also ensure that they approach their taxation responsibilities with confidence (Kasipillai and Mustafa, 2000). A study by OECD, (2004), confirms that the tendency to evade is immensely reduced by taxpayer education hence improved tax compliance. In a similar study by Kasipillai et al., (2003) it is confirmed that citizens who have accessed a higher level of tax education are aware of tax loopholes and this discourages them from deliberate non-compliance.

1.1.4 Small and Medium Businesses in Mombasa Central Business District

The term SME attracts diverse definitions from different studies undertaken in different countries. The lack of uniform definition is due to the different sources of relevant statistics. Despite the shortcoming, some factors such as the number of employees, capital size, sales level and value of assets have been used to guide definition and measurement. Of these the number of employees has been widely used. UNCTAD (2000) defines SME as a business involving between one and five persons, with very simplified activities that can be managed directly on a person-to-person basis. In Kenya, the MSME bill 2009 provided the measurement factors as being number of employees and the enterprise' annual turnover. According to Hallberg (2000), these definition differences have no fundamental impact of the study on SMEs due to their rampant inconsistency.

SMEs provide a huge percentage of employment opportunities in the private sector. A study by Gauthier et al., (2001) discovered that the collection costs or enforcement costs outweigh some of the tax revenue due from SMEs hence uneconomical to chase, enabling them to slip away from the authority's tax net. Due to these complexities associated with taxation of the SMEs, some remain unnoticed by the tax authority. Some measures such as the introduction of TOT were made to address the loophole by widening the income tax base through streamlining income tax collection in Kenya. The puzzle of taxation on SMEs has remained despite relentless efforts by the authority.

1.2 Research Problem

When dealing with questions, in a manual tax (paper tax forms) return filing system, one has to turn up and down giant heaps and stacks of paper and search through cabinets with no guarantee of 100% accuracy. Electronic filing systems in Kenya (iTax and Simba) do enjoy in-built audit protection tools. These tools ensure that mistakes are discovered before the actual filing is validated. Achievement of tax compliance and tax revenue targets depend partly on the taxpayer's cooperation buttressed by the tax knowledge of the tax system in place.

Kenya's tax revenue contribution to GDP stands at around 22.5% (KRA, 2004) against Sub-Saharan tax revenue average of 18% and Botswana's tax revenue to GDP ratio of 40% (KRA, 2004). The expanded wage bill occasioned by the emergence of county units raising the budget for the fiscal year 2015/16 to Kshs. 2.16 trillion has similarly scaled up the revenue collection target for KRA to Sh. 1.36 trillion from Kshs. 1.18 trillion in 2014/15 (KRA, 2015). Over the last two years government expenditure plans have risen by 25 per cent from Kshs. 1.6 trillion to Kshs. 2 trillion,

leading to substantial growth in debt levels and inefficient absorption of funds through leakages of both wastage and corruption. The KRA has been implementing raft of reforms but collection projections remain elusive. These reforms include automation of filing tax returns and public sensitization campaign targeting the small and medium business (SMEs) to meet their tax obligations. The reforms reinforce the KRA goal to expand the registered taxpayers to four million by 2018 from the present level of 1.6 million taxpayers by facilitating taxpayers' compliance. The KRA through taxpayer education and public relation drives, aims at creating the right level of tax knowledge and awareness necessary for revenue target realization.

The reforms undertaken by the KRA lately were designed to enhance taxpayer voluntary compliance and thereby boost hitherto dismal revenue collection characterized by huge tax gaps. The short-fall from the targeted collection against the actual collection constitutes the tax gap (James et al. 2001). In other words it is the difference between what would have been collected if 100% compliance was achievable and all taxpayers reported accurate and complete information on of their activities, and the tax revenue collected in practice (Thomas and Gary,2009). The tax gap can only be closed up through simplified versatile automated filing systems such as iTax, Simba, EGMS, ECTS & ORBUS and sustained taxpayer education among other tax awareness campaigns.

The tax regimes in most African countries remain largely characterized by complex tax rates brought about numerous reforms which turn out to pose difficulty to taxpayers Fjeldstad et al., (2003). Fjeldstad et al., (2003) confirm that these reforms have resulted in considerable expansion in tax base with the fairly large corporations appearing to be the most affected by the central government taxation. Although

coercive methods have yielded higher per capita tax revenue, they breed distrust between the taxpayers and the authority. Inadequate information to the taxpayers will leave them with little room for compliance and enforcement action will be viewed to be unfair (OECD, 2004). Attitude about the tax system is largely affected by the taxpayers' knowledge about the system. If the tax system is poorly appreciated by the taxpayers and the government and creates loopholes both in policy and practice and therefore attracts coercive methods for tax revenue collection tends to widen the distrust gap between the public and the government. In the absence of trust there is little leverage in cooperation between the government and the public no more effort is made by the taxpayer to comply voluntarily. (Odd-Helge and Lise, 2003).

In Simiyu (2003) research study, with the primary objective of identifying the inherent factors underpinning voluntary tax compliance among local authorities, provides insight into the impact of those factors on tax compliance under electronic tax filing system. The researcher did not access any other study carried out on how tax compliance is affected by online filing system. The extent of the impact of electronic filing system on taxpayer compliance was inadequately covered by the few studies that have been carried in Kenya hence the primary purpose of this study was to expand the study to address adequately the evident knowledge gap.

1.3 Research Objectives

This research sought to investigate the effect of electronic tax filing systems on taxpayer compliance guided by the following objectives;

- i) To establish the effects of electronic filing system on taxpayer compliance in Mombasa CBD.

- ii) To find out the effects of electronic filing system knowledge on taxpayer compliance in Mombasa CBD.
- iii) To establish the challenges of using electronic system on tax compliance and their possible solutions.

1.4 Value of the Study

This study sought to establish the impact of electronic filing and payment system coupled with rigorous taxpayer education on its use on the compliance of the small and medium income taxpayers in Kenya.

System developers can rely on the study to improve on the electronic tax filing system in place in Kenya and elsewhere in the world. The flow of information enhanced by the system's integration of all the key wings of Kenya Revenue Authority namely, Income tax, VAT and Customs, ensures that improvements proposed for a given element ultimately reveals the necessary changes in another. Through the taxpayer identification numbers (PIN) the departments can be connected electronically at transactional level with significant advantages.

The Kenya Revenue Authority can rely on the study to relook at its tax policy and administration approach. The authority would also obtain understanding of how taxpayer education efforts affect the taxpayers' compliance. It can further guide a specific approach to dealing with those taxpayers who display erratic tax reporting behavior in view of the perceived benefits of electronic tax filing system. The study can underpin the measuring of the level of taxpayer education gained by an individual taxpayer post KRA electronic tax filing system introduction.

Tax practitioners find the completed study useful in devising advisory approach to assisting their clients and in tax planning in view of increased enforcement penalties under the electronic filing system. The requirement of Tax Compliance Certificates in all government-related transactions have influenced taxpayers to turn to tax agents for assistance. In-depth knowledge of electronic tax filing system required during audits render the role of the tax practitioner inevitable hence the vital place of this study in their activities.

In view of the contributions made to the body of knowledge, foremost, this study evaluated the significance of the impact of electronic filing in self-assessment thereby advancing a recommendation that an increase in taxpayer education in this area of the wider taxation system could spur the willingness of the taxpayers to comply. The findings of the study can be used to highlight necessary reform measures to be undertaken by the tax administrators in designing education programs in order to increase taxpayers' knowledge of electronic tax filing system. The study can also guide the taxpayer education approach by highlighting how feedback can be obtained.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter deals with literature relevant to the study of electronic tax filing, tax compliance and taxpayer education. The relevant literature was obtained from the internet, past research and accounting books. The sources provided the necessary information that enabled the researcher to conduct his study effectively

2.2 Theoretical Framework

There are a number of factors responsible for taxpayer's compliance behaviour backed by specific theories.

2.2.1 Technology Acceptance Model

A study by Palmer (2002) explains that an online filing system that is versatile enough in terms of usability, design and performance is ideal and need to be evaluated further against site content, navigability, interactivity, download delay, user's feedback on satisfaction, responsiveness, the frequency of use and likelihood of return to the website.

The method was developed taking into account the perceived ease of use and its usefulness to the users.

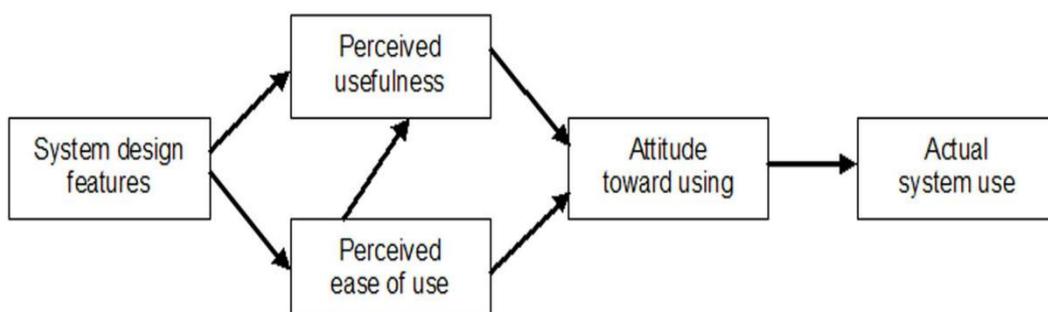


Figure: 2.1Technology Acceptance Model

In their study Paul and John (2003), confirmed the importance of TAM model adding that its full benefits are realized when intertwined with a more advanced model that boasts diverse variables with both social and human factors. The factors are taken into account by the theory of planned behavior (TPB).

Another study by Anna Yusniza (2009) looked at the perceived risk within the online tax filing in Malaysia. Their study was based on the perception that e-government has become considerably more important in today's world due to its effectiveness and reliability by various government departments. Online tax filing is a system that has been adopted by developed countries through which the public can engage with the government and meet their tax obligations cost-effectively. Researchers are yet to come up with an integrated system for tax to allay the fears and negative perception of the public despite wide adoption across the globe. They concluded that a number of performance and psychological risk facets remain significant in addition to time and privacy risks.

Electronic tax filing systems face congestion when filing is done near the tax deadline. A number of studies have pointed that taxpayers tend to e-file around this time hence system crashes if the system capacity is exceeded. Taxpayers may find themselves frustrated by the need to spend a lot of time learning about the system and perhaps realize that the system cannot provide the functions anticipated leading to psychological and time risks. Taxpayers' confidential data have to be transmitted electronically exposing the taxpayer to privacy risks. Recommendations on risk reduction strategies should be formulated to take care of the taxpayers concerns through advanced security features such as advanced encryption for the user interface. E-filing adoption opens the door to many risks which can be mitigated by formulation of risk-specific strategies.

2.2.2 Ability to Pay Theory

The theory was formulated by Smith and Pigou (1903). The citizens ought to contribute toward the running of every government in proportion to the revenue earned under the protection by the state. This theory attempts to distribute the tax burden according to the individual ability of the taxpayer and taking into consideration the personal characteristics of the person. The theory is popular as it equates the amount of tax payable to the individual taxpayer's ability to pay hence satisfying the need for equity and justice. Such taxes personal taxes as income taxes, inheritance taxes, consumption and net worth are equitably premised under this theory (Wasao 2014).

2.2.3 Benefit Theory

This theory was developed by Knut W. in 1896 and Erik L. 1919. In this approach conferment of benefits by the state on one person determines the amount of taxes he/she should pay. If a person derives more benefits from the state, the tax payable by such person should be guided accordingly. Critics of this principle argue that the state should not maintain a connection between the benefits conferred with the benefits derived. They assert that the principle of tax demands that the taxpayer makes compulsory contribution to the state or public authority to carter for the expenditure of the government and provision of the benefits. This argument reaffirms that no quid pro quo exists in the process. The total expenditure accumulated by the state cannot be adequately equated to the benefits derived by an individual taxpayer. If this principle is applied to the letter then the poor will end up paying the most taxes based on the benefits they derive hence the small tax payers may have to pay more taxes than medium and large tax payers. (Wasao 2014)

2.3 Determinants of Tax Compliance

This section provides the critical analysis of the factors influencing tax compliance.

2.3.1 Electronic Filing

Electronic filing is a paperless online platform for the lodgment of tax returns and declarations and other tax-related services to a revenue authority electronically. The use of technology to simplify compliance is becoming embraced globally. Electronic system for filing returns and paying the due taxes, if accepted and adopted by most businesses and individual taxpayers, result in tangible advantages to both the taxpayers and the government. The government gains in the form of reduced operation costs such as costs associated with submission, storage and handling of returns in addition to saving time which in turn boosts compliance. The taxpayer benefits from the system is form of reduced calculation errors, preparation and filing time.

The KRA introduced the iTax online filing system to among other goals speed up assessment and other related processes. Electronic tax filing system enables taxpayers to access internet-based platforms such as PIN creation, filing of tax returns, tax due payment and profile data edit with real-time management of the ledger accounts (Waweru 2013) To provide additional benefits to taxpayers, KRA partners with a number of reputable financial institutions such as Kenya Commercial Bank, National Bank of Kenya and quite a number of other commercial banks within Kenya to enable taxpayers meet their tax obligations either over the counter or through online banking. Apart from the bank agents KRA is aggressively promoting online filing as a measure to spur efficiency and mitigate errors associated with tax return filing (KRA, 2015).

The system avails key benefits such as; it is a free service and a secure alternative to filing a paper return that enables individual taxpayers, tax agents and enterprises to register as taxpayers and submit their returns and declarations, generate e-slip for payments and perform a number of other online interactions with the tax authority. Secondly, when you e-file with online system, you enjoy industry-standard encryption technology to safely and securely transmit your return. Thirdly, e-filed returns are usually processed more quickly than paper returns, which is good news if you're expecting a refund. Fourthly e-filing is also "greener" than paper-filing – not only do you save paper and often lots of paper, you save the fuel and energy required to transport paper returns. Fifthly, Taxpayers and other persons registered for electronic tax filing can engage with tax authority electronically on issues related to returns, declaration and payments of payable taxes, outstanding duties and levies, and contributions. Finally, the KRA's electronic tax filing platform, iTax system, service is reasonably at par with internationally set standards of online tax filing systems adopted by countries such as Singapore, France, United States (US), Australia, Ireland and Chile (KRA, 2015).

2.3.2 Taxpayer Education

Taxpayer education programs tailor-made for taxpayers have been successfully implemented and progressed in most countries including the USA. Taxpayer education can be organized and delivered by the tax authority or independent agencies as an informal or formal program whereby the taxpayers are facilitated through the process of completing and filing tax returns correctly and also to inculcate awareness of taxpayers responsibilities with regard to the relevant features of the tax system (Eriksen et al, 1996; IRB Annual Report, 2006 and McKerchar, 2007).

Roberts et al, (1994) assert that the mere superficial understanding of the essential tax policy concepts such as progressive tax method is not adequate hence the citizens and taxpayers in particular need in-depth information. Steinmo, (1998), relied on evidence from the US and Britain and corroborated findings by other studies on the public's attitudes, knowledge of taxes, perceptions, and tax policy, that concluded that the citizens were considerably misinformed and/or confused. Kasipillai et al, (2000), summed it up that knowledge about tax policies and laws would influence taxpayers' attitudes and preferences about taxation and the self-assessment process.

Taxpayer education and knowledge remain an important integral part of the self-assessment process. The features of self-assessment process in Kenya requires robust knowledge of the prevailing tax laws and rules for computing actual income tax and its reporting, making correct deductions and tax relief claims and coming up with accurate tax calculations and remittance. Mohd, (2000), states that in order to come up with accurate economic consequences a taxpayer need to possess knowledge of specific tax regime corroborated with good understanding of tax rules backed by sound financial knowledge. The revenue authority needs to provide the taxpayer with detailed information about the tax system and guidelines on computation of tax due, how to make payment of the tax so computed and the penalties owing to failure to comply adequately. KRA have identified tax education as one of the strategies that can improve compliance of taxpayers through programs such as proactive information dissemination involving tax-clinics, workshops, seminars, live talk shows on radios, literature on tax and KRA websites.

2.4 Empirical Review

Picur et al., (2006) states that three perspectives on the relevant theories were relied upon by previous researchers to explain and measure the degree of tax compliance. These models included norms of compliance, economic, uncertainty and inertia. The taxpayers' primary target is to optimize taxes in all situations characterized by excess benefits from tax delinquency over the punishment and detection risk. On the other hand, an extension is made by the uncertainty models on the economic model study. Advocates for uncertainty model argue that information is scanty with respect to penalty and risk of audit despite the fact that ordinarily majority taxpayers will seek to optimize interests on their finances. Finally, tax culture is considered to have influence on taxpayer behavior according to norms of Compliance models.

Franzoni (1999) avers that good number of the analyses of the failure to compliance have focused on how the failure to compliance or evasion is discouraged by detection or sanction, which approach cannot satisfactorily explain noncompliance among taxpayers.

According to Lubua, (2014), in the Tanzanian revenue authority, employees have come up with workshops designed to enlighten the public on the benefits associated with steps taken to comply voluntarily. Unfortunately, many respondents confirmed that they never received the trainings by the revenue officers. The setback was attributed to the limited number of staff deployed to carry out this exercise. The mobile technologies can be useful in providing trainings. Dowe (2008), states that in order to implement a successful electronic tax filing and payment systems a reliable and easily accessible internet platform providers backed by a financial sector ready to

provide needed funds is critical. The success is also significantly contributed to by a public that is IT oriented on one hand and on the other hand adequate financing to set up the appropriate infrastructure in government tax offices.

Duncan (2000) looked at the factors that facilitate the successful adoption of technology as a tax compliance enhancement tool. In his study, he concluded that three factors must be in place to realize this objective, namely: flexible Information Technology structure, competent IT skill base and strong customer orientation. Kamau (2014), sought to determine the impact of the implementation of online technology as one of the strategies in improving taxpayers compliance in Kenya. The study focused on the larger taxpayers of Kenya Revenue authority. The study concludes that indeed the adoption of technology does impact on the tax compliance levels of the large taxpayers.

Knowledge is considered to be a key element in evasion of tax (Richardson 2006). Knowledge provides the taxpayer with the ability to understand the need to comply and therefore elects to comply with the relevant tax laws or not comply (Jackson & Millron, 1986). Past studies have provided the evidence of the existence of a relationship between tax knowledge about the tax rules and regulations and the taxpayers' ability to adhere to the same and comply (Singh, 2003). With improved knowledge about tax rules and regulations, tax compliance tends to improve owing to a more suitable perception. Similarly tax compliance is negatively affected by availability of evasion opportunities made known to a taxpayer through tax education. A large proportion of the previous studies on the effect of education on evasion have based their findings on the taxpayer level of general education as a measure of education, Richardson et al., (2001).

Higher rates of compliance is also attributed to corresponding knowledge of tax laws Cuccia et al., (1996). Eriksen et al., (1996) asserts that tax compliance improves as a result of decreased rate of evasion which is as a result of similar increase in tax knowledge. A study by Lewis (1982) looked at the possibility of a relationship between attitude at tax form filling stage and the knowledge about tax laws. The researcher looked at the possible changes in the attitude due to increase in knowledge and that would likely have an impact on compliance. He concluded that the knowledge was insufficient leading to negative effects on economic fronts resulting in widening of the tax gap).

In consideration of studies by Eriksen et al., (1996) and Lewis (1982), the hypotheses were developed as follows; H1 – Taxpayers who have attended tax training on electronic tax filing systems are significantly more compliant, H2 –Taxpayer Education is positively associated with tax compliance.

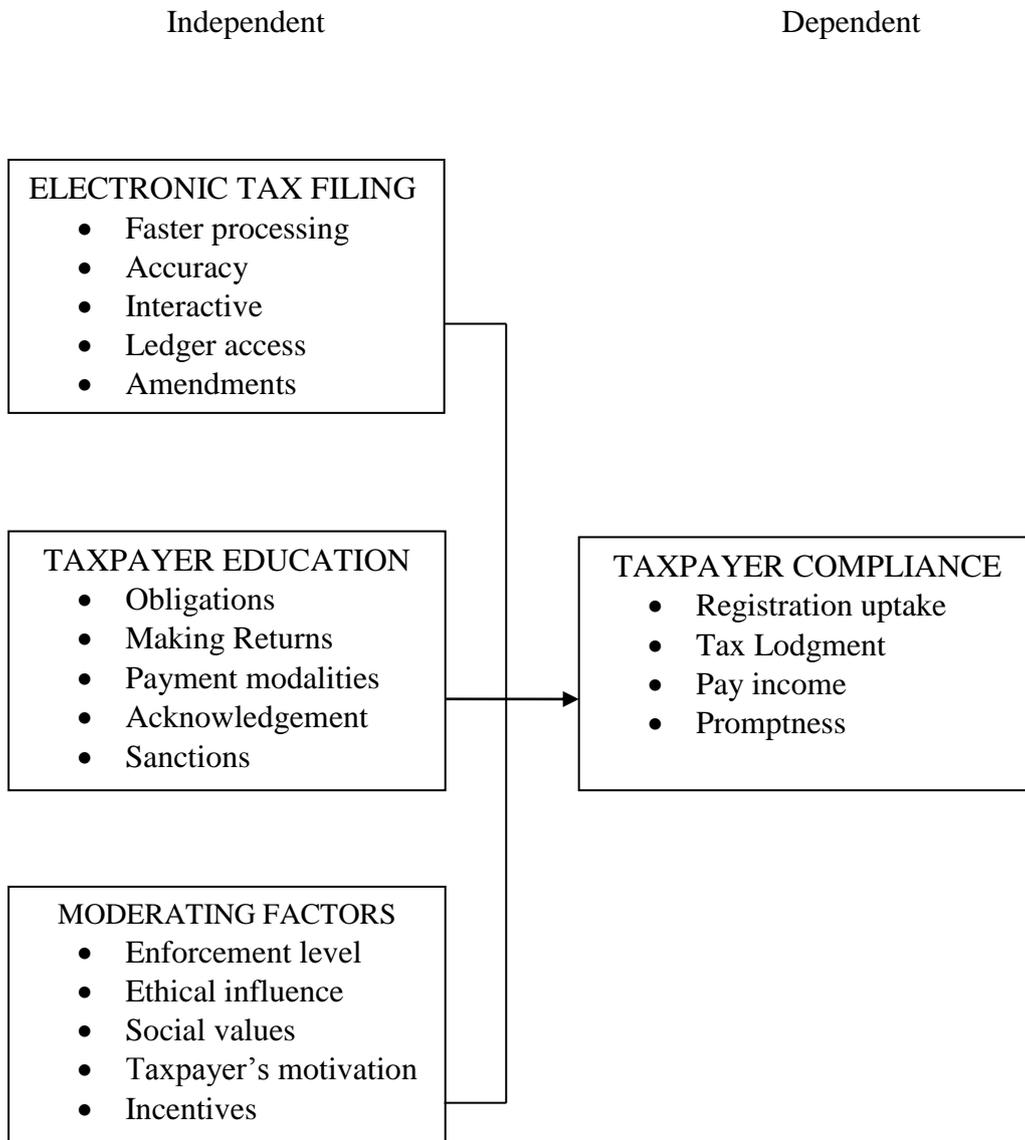
The impact of electronic tax filing system on tax compliance has attracted a number of studies largely internationally. One local case study based on Large Taxpayers coming under LTO and undertaken by Makanga (2010) to establish the impact of technology as a strategic tool for enhancing tax compliance in Kenya concluded that technology is vital for enhancing the efficiency of revenue collection and tax compliance. The study confirmed the vital place of technology in modern business functions could not be overstated. The study was also corroborated by a similar study by Muita (2010) on the underlying factors responsible for the choice of implementing online tax filing system among the large taxpayers in Kenya. In the study, the authority's preparedness was reviewed against the technical skills necessary for the success of the system both on the part of the taxpayer and the government.

Conclusion of the study revealed the need for adequate skill and infrastructure development. Akinyi (2010) looked at the challenges Government institutions face on public service delivery in Kenya. Her study detected an inherent problem in terms of service delivery coordination between the local authorities and central government workers at the field level. She did not look at KRA which is the focus of this study.

2.5 Conceptual Framework

Developed from the research objectives, the conceptual model discloses new constructs and relates them to confirm that tax compliance is a function of taxpayer education to benefits of electronic tax filing system. This conceptual model is based on a review of existing literature about the variables. Borrowing a lot from the studies of several authors such as; Chunng (2002); Ericksen et al.,(1996), Harris et al.,(1988); Jackson et al.,(1986), Kassipillai et al. (2003). It states that tax compliance as dependent variable is significantly influenced by taxpayers' knowledge on tax laws and regulations and their appreciation of the benefits of electronic tax filing system as independent variables. It states further that taxpayer education is a key factor in determining the benefits of electronic filing system hence concludes that tax compliance improves as a result of favorable perception occasioned by enhanced level of tax knowledge. Richardson et al., (2001).

Figure 2.2: Conceptual Framework



Source: Author (2016)

Figure 2.2 above conceptually demonstrates that independent variables, Tax education and Electronic filing, affect the taxpayers behavior toward taxation (tax compliance – dependent variable) specifically influencing tax lodgment, level of tax debt, accurate pay income and promptness.

2.6 Summary of Literature

Tax education seems to be an important component in tax compliance in a self-assessment systems but the extent of the needed level of education differs from one country to another as confirmed by Eriksen et al.,(1996); Lewis, (1982); Kim, (2008); Loo, (2006). A research on tax evasion has been undertaken in a number of developed as well as developing countries. The factors affecting compliance tended to vary between different countries owing to the fact that each country has its own measures to deal with evasion and unique set of tax laws and regulations.

Finally, the government ought to analyze the characteristics of the tax evaders, improve on the tax laws; policies and systems to enable the taxpayers to appreciate with relative ease their tax obligations and sanctions. Similarly an increase in tax education programs coupled with a good public relations will ultimately improve general tax compliance levels. Taxpayers' compliance is not affected through economic measures only. A taxpayer with good tax education on tax matters and the current tax system is expected to comply diligently.

This chapter dealt specifically with the review of the literature related to the various themes in the study. Several studies identified a positive relationship between Taxpayer education, Benefits of electronic filing and Tax compliance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter examines the research methodology and design involved in this research study, including the research survey method used, the data collection method (survey procedures, sampling frame and development of the questionnaire). It further discusses the details of the research hypotheses and framework, data input, processing and presentation. The techniques for data analysis, the operational definitions of variables and limitations of the study are looked at.

3.2 Research Design

A descriptive study design was used given that the purpose is to establish and analyze the possible relationship subsisting between electronic filing system and tax compliance levels demonstrated by the degree of adherence to electronic filing of returns for various taxes and their tax due remittance. Doyle (2004) defines descriptive research as a composite of techniques for the collection of data and receiving responses to a set of questionnaires from specific respondents. This research technique was found to be appropriate for the study when tackling self-administered questionnaires. Marti, Wanjohi, Magutu and Makoro (2010) applied a similar approach while doing a study on The Taxpayers' Attitudes Effects on Tax Compliance Behavior among Small and Medium Business Income Earners in, Kirinyaga District.

3.3 Target population

The target population that the researcher based the investigation on was 752 licensed (Mombasa County database) small and medium businesses operating in Mombasa CBD within an area lying between Heile Selassie and Moi Avenues coming under the Mombasa South tax jurisdiction of KRA.

3.4 The Sample size and Sampling Techniques

Sampling is the gathering and asking of a range of individuals the same questions related to the benefits of using electronic online filing system to firm, over manual alternatives. It also involves the collection of relevant information (O' Leary, 2004).

The sample size was determined using Sloven's Formula:

$$n = N/1 + Ne^2$$

Where...:

n = Size of the sample

N = Size of the Population

E = Margin and r

A sample of 70 respondents was used. In this regard, the sampling size was adequate to cover the entire selected period of 2 months of operation. Due to the homogeneity of the elements, the sample size was kept relatively manageable. The researcher adopted stratified random sampling to select the respondents from the two distinct categories (small and medium businesses) who were the registered taxpayers and the questionnaire delivered to premises.

3.5 Data Collection

Standardized questions, in structured and self-administered questionnaires, were prepared by the researcher and issued to the selected respondents for a week to disclose the individual knowledge about the benefits of electronic filing system. This consists of a series of structured questions and other relevant prompts designed to draw information from the selected respondents. They are cost effective because of their ‘drop and pick later’ nature as compared to costly face-to-face interviews, owing to the costs of shuttling between respondents. A sample of the study questionnaire is availed in appendix one.

Primary data collection instrument used was Survey Questionnaire administered to registered taxpayers operating and managing small and medium businesses within Mombasa CBD. Secondary data was gathered through review of KRA bulletins and journals, Internet and published literatures. Data relating to Electronic filing system included Registration uptake, areas of interaction with the system, time taken to receive acknowledgments, accuracy and cost of filing. Taxpayer compliance measurement entailed consideration of tax lodgment, tax debt, pay income/payment and promptness. Data obtained with respect to Taxpayer education included tax training sessions attended, number of complaints on reliability of system.

3.6 Data Analysis and Presentation

The collected data was coded then keyed into the statistical package for social sciences (SPSS 20) for further analysis to let a solution for our research problem emerge. Regression analysis was used to test the effects of online filing technology on tax compliance among the small and medium businesses in Mombasa CBD. Specific tax education level was measured in relation to the respondents’ ability to compute

the tax liabilities on Income and wealth for different tax regimes. Concretely framed questions were used to address and disclose specific tax knowledge issues (Jonas, 2003). Levels of tax compliance among the respondents were measured based on the four items (Wenzel 2001) thus; Registration uptake, tax return filing, tax due determination and promptness.

3.6.1 Analytical Model

The data was presented both quantitatively and qualitatively and analyzed using descriptive statistics such as use of percentages, frequency tables and graphs. The data analysis procedures involved three sets of activities; editing, coding and frequency tabulations. Editing was done by looking through each of the field questionnaire ascertaining that every applicable question had an answer and all errors eliminated for the completeness, accuracy and uniformity.

The above explanatory variables were adopted into a linear regression model as presented below.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_n X_n + \varepsilon$$

Where;

Y => Dependent Variable (Tax Compliance)

X1 => Independent Variable (Electronic Tax Filing)

X2 => Independent Variable (Tax Education)

a => Constant

b1, b2 => Regression Coefficients

ε => Error term

Table 3.1: Operational Definition of the Variables

Objective	Variables	Indicators	Instrument of analysis
To find out the extent to which electronic tax filing has enhanced tax compliance.	Independent Electronic tax filing	<ul style="list-style-type: none"> • Fast processing • Accuracy • Interactive • Ledger access • Amendments 	Questionnaires
To find out the extent to which tax education has enhanced tax compliance	Independent Tax Education	<ul style="list-style-type: none"> • Obligations • Making returns • Payment modalities • Acknowledgement • Sanctions 	Questionnaires
Tax Compliance	Dependent	<ul style="list-style-type: none"> • Registration • Tax Lodgment • Payment Income • Promptness 	Questionnaires

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter provides a description of the results of data analyses in narrative and tabulated manners. First, demographic information for the respondents is reported such as gender, age and academic level along with organizational proportions of the participants. Second, descriptive research statistics such as means, standard deviation, skewness and kurtosis followed by detailed analysis of the research questions. Finally, the chapter discusses the research objectives. The study sought to establish the effects of electronic filing systems on tax compliance among small and medium taxpayers within Mombasa CBD. The focus of the study was on the following; registration for electronic system, filing returns online, remitting taxes online, online interaction between taxpayers and the authority.

4.2 Data Collection and Response Rate

The number of respondents sampled was 70, out of which 58 returned their questionnaires. The final sample considered for the study was therefore 58, representing 83% response rate on the initial sample. Mugenda and Mugenda (2003), states that a response rate of over 60% is considered adequate but if lower would require the researcher to do a follow up to establish the factors responsible for the lack of response as they could be relevant factors for the study.

4.3 Demographic Information

The respondents were aged between 18 and 55 years of age ($M=35$ years, $SD=9.25$). Male constituted 63.79% and female were 32.21%. The respondents reported varying levels of education as follows; 5.36% held postgraduate degrees, 20.69% were holders of first degree, 18.97% were college diploma holders and 55.17% held college certificates. None of the respondents fell below form four level of education.

Table 4.1 Profile of Respondents

		Valid No. (=56)	Frequency (N)	Percent (%)
Gender	Male		37	63.79
	Female		21	36.21
Age	18 - 24		10	17.24
	25 - 30		5	8.62
	31 - 35		12	20.69
	36 - 40		18	31.03
	41 and above		13	22.41
Level of Education	College Certificate		32	55.17
	College Diploma		11	18.97
	Under-graduate		12	20.69
	Post-graduate		3	5.17
Sector of the Economy	Shipping		9	15.52
	Transport		13	22.41
	Hospitality and Tours		5	8.62
	Insurance and Security		5	8.62
	Construction & Hardware		10	17.24
	Booksellers & Publishing		5	8.62
	General Trading		11	18.97
No. of Employees	1 - 10		33	56.90
	11 - 25		14	24.14
	26 - 50		8	13.79
	51 and above		3	5.17

4.4 Descriptive Results of the Research Variables

The study aimed at establishing the effects of electronic tax filing systems on tax compliance among small and medium taxpayers in Mombasa CBD. The effects of tax education on taxpayer compliance on key areas of compliance such as Registration, Tax lodgment, Payment Income and Promptness was evaluated by the questionnaire.

The descriptive results of the variable in Table 4.3 gave measures such as Means, Standard Deviations, Variance, Skewness and Kurtosis. Electronic Tax Filing had a mean of .72 (SD = .10). Tax Education had a mean of .91 (SD = .28). The statistical values were measured by Skewness and Kurtosis to determine the normality of distribution of the variables. Skewness measures the distribution of responses whereas Kurtosis measures the clustering of responses around a central point for a standard distribution (Stern et al., 1977). The Skewness and Kurtosis statistics for all independent variables in this study were within acceptable range of normality of 3.0 and 8.0 respectively (Kline, 2005).

Table 4.2 Descriptive Statistics

Descriptive Statistics								
	N	Mean	Std. Deviation	Variance	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Tax Compliance	58	.93103	.255609	.065	-3.493	.314	10.565	.618
Electronic Tax Filing	58	.72126	.101969	.010	-.284	.314	-.547	.618
Tax Education	57	.91228	.285401	.081	-2.994	.316	7.217	.623
Valid N (listwise)	57							

4.4.1 Regression Analysis

Linear regression was applied to determine the relationship between independent variables (Electronic Tax Filing and Tax Education).

Table 4.3 Model Summary

Model Summary									
Model	R	R. Square	Adjusted R. Square	Std. Error of the Estimate	Change. Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.250 ^a	.063	.028	.254096	.063	1.803	2	54	.175

a. Predictors: (Constant), Tax Education, Electronic Tax Filing

It can be observed in Table 4.3 that the R-value is .250 and the R Square is .063 denoting that approximately 25% of the variability of Tax compliance is accounted for by the predictor variables in the model. It means Tax compliance was influenced to the extent of 25% by the independent variables. Adjusted R-square is the coefficient of determination which shows the variation in the dependent variable as a result of changes in the independent variables.

It is found in table 4.3 that there is a significant relationship between electronic tax filing and tax education (independent variables) on the one hand and the tax compliance (dependent variable) on the other hand ($r=.250$, $p<.05$). The results confirm hypotheses H1 – Taxpayers who have attended tax training on electronic tax filing systems are significantly more compliant, H2 – Taxpayer education is positively associated with tax compliance.

4.4.2 ANOVA

Analysis of Variance (Table 4.4) below revealed that the relationship between the independent variables and the dependent variable (Tax Compliance) was significant at .065 and this can be a sufficient tool to explain the independent variables level of influence.

The constant of .469 represents others factors that significantly influence tax compliance but not disclosed by this model. In effect, holding electronic tax filing and tax education constant would result in tax compliance of .469 hence confirming that a unit increase in the electronic tax filing and tax education would respectively result to .512 and .099 increase in tax compliance.

Table 4.4 ANOVA

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.233	2	.116	1.803	.175 ^b
	Residual	3.487	54	.065		
	Total	3.719	56			

Dependent Variable: Tax Compliance

a. Predictors: (Constant), Tax Education, Electronic Tax Filing

Table 4.5 Model Coefficient

Coefficients													
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations			Collinearity Statistics		
	B	Std. Error				Beta	Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	.469	.252		1.863	.068	-.036	.973					
	Electronic Tax Filing	.512	.347	.200	1.475	.146	-.184	1.208	.226	.197	.194	.942	1.061
	Tax Education	.099	.123	.110	.807	.423	-.147	.345	.158	.109	.106	.942	1.061

a. Dependent Variable: Tax Compliance

$$Y = .469 + .512X_1 + .099X_2$$

The above function includes the three variables showing their positive association viz Tax compliance, Electronic Tax Filing and Tax Education. It revealed that holding electronic tax filing and tax education at zero constant, tax compliance would stand at .469. a unit increase in Electronic tax filing would result in an increase in tax compliance among small and medium taxpayer within Mombasa Central Business District by a factor of .512 and similarly a unit increase in tax education would result in an increase in tax compliance by a factor of .099. Karingi and Wanjala (2005) confirms that a positive correlation will exist between electronic tax filing, tax education and tax compliance.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings of the study, makes conclusions and presents the recommendations for further research in the subject area.

5.2 Summary of Findings

The primary objective of the study was to establish the effects of electronic filing systems on tax compliance among the small and medium enterprises within Mombasa Central Business District. The taxpayers were categorized into specific sectors for ease of analysis. These categories included Shipping, Transport, Hospitality and Tours, Insurance and Security, Construction and Hardware, Booksellers and Publishing, and General trading.

The study focused on two independent variables; electronic tax filing and tax education. To realize peak iTax registration, tax agents who prepare and e-file tax returns for the taxpayers without a computer-internet link have played a critical role. As a result of registering on iTax, the taxpayers have faster access to historical data with reduced errors and costs hence improving taxpayer service and promoting voluntary tax compliance.

Kariuki, (2013) confirms that electronic tax filing enhances better decision making. A number of taxpayers appreciated the advantages accruing to electronic tax filing such as accuracy, real-time ledger update while noting the slow processing speed around deadlines.

The second area of study was Tax education. By sustaining taxpayer assistance programs such as workshops and seminars, KRA have indeed achieved a remarkable milestone as a result of tax returns upload rate. Tax Education had a mean of .91 (SD = .28).

The statistical values were measured by Skewness and Kurtosis to determine the normality of distribution of the variables. The Skewness and Kurtosis statistics for all independent variables in this study were within acceptable range of normality of 3.0 and 8.0 respectively (Kline, 2005).

Linear regression showed a positive relationship between the study variables at .250. The correlation analysis showed that Electronic Tax Filing is not overall responsible for the tax compliance an indication that Tax education had significant influence on tax compliance. The value of coefficient of determination (R squared) was .063 an indication that there was a variation of 6.3% on tax compliance due to change in electronic tax filing.

ANOVA revealed that the relationship between the independent variable and the dependent variable (Tax Compliance) was significant at .065 and this can be a sufficient tool to explain the independent variables level of influence.

5.3 Conclusions

The research objectives were tested to establish the effects of electronic tax filing system on taxpayer compliance behavior hence tax compliance in Mombasa Central Business District. The findings confirm that electronic tax filing significantly improves tax compliance.

Tax compliance among small and medium taxpayers in Mombasa central business district is significantly affected by tax education. The respondents have had some training exposure on electronic tax filing system especially ITAX.

The challenges faced by the taxpayers with respect to electronic tax filing could not entirely be traced to the two key independent variables hence the conclusion that there are other underlying factors highlighted by the conceptual framework.

5.4 Recommendations

The system should be as versatile as possible to allow for both penalties and credits to knock out each other. Most taxpayers rushed to file out of the fear of incurring penalties hence not being accurate. Concerns were noted when it comes to penalties where the system could not allow generation of e-slip for payment under ITAX net of the disputed penalties and interest. This is likely to stoke more disputes in the future associated with claims for refunds.

The remittances deadlines should have been extended for example filing dates for corporation tax to be September 30, for December 31st year-end firms. This would accord firms enough time to familiarize with the system and its sanctions such as interest and penalties without occasioning any losses to the government while avoiding unnecessary accumulations of penalties due to near-deadline system congestion, internet accessibility and shortage of fully trained employees.

Policy should be directed towards strengthening taxpayer education to engrain the taxpayers' duty and obligation under various tax regimes in Kenya. Taxpayer's knowledge of the electronic tax filing systems is key to the success and realization of the desired objectives envisaged by their introduction. J. Kasipillai (2000) states that

Tax knowledge is an essential element in a voluntary tax compliance system. Further studies by J. Kasipillai, A. H. Jabbar (2003) and E. Kirchler, A. Niemirowski, Wearing (2006) empirically confirm that possessing tax education would lead to higher compliance rates.

5.5 Limitation of the Study

Tax is a very sensitive issue to businesses hence the first impression the researcher noticed was that of non-receptive respondents a situation which changed after a lengthy explanation by the researcher. The delay in getting all the questions answered negatively affected the research deadlines. Further, the generalized approach to training and workshops by KRA in which no effort was made to segment the taxpayers into distinct categories resulted in taxpayers gaining just enough knowledge to process their returns but not able to interrogate the systems with regard to benefits and setbacks. This limitation led to the respondents not being able to answer all questions without seeking further clarification from the researcher. Time and resources were also limited especially to reach the 58 respondents and collect back the questionnaires. Despite the limitations stated, however, care was taken to ensure that the results presented were as accurate as possible.

5.6 Suggestion for Further Research

Finally, research should deal with perception by taxpayers particularly in view of the ambitious tax targets being set by the government to establish whether or not fear of the consequences could lead to the inconsistency and erratic filing behaviour with the potential of irrecoverable debts (principal, interest and penalties). A study should be done to establish whether the various categories of taxpayers have unique and distinct needs to inform the type of training relevant to them hence specially designed training

package be developed. Finally, the KRA officers in charge of stations should be mandated to evaluate individual disputes arising from interest and penalties and take remedial measures including waivers and concessions. The measure will ensure that only cases that can stand the rigor of legal scrutiny and where the commissioner is likely to win are forwarded to the ADR. Worth noting is the fact that of late ADR has proved to be the most effective tax dispute resolution agency for the government as opposed to court system.

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APPENDICES

Appendix I: Letter of Introduction



UNIVERSITY OF NAIROBI SCHOOL OF BUSINESS

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE: 20/9/2016

TO WHOM IT MAY CONCERN

The bearer of this letter ... Richard Opiyo Odongo

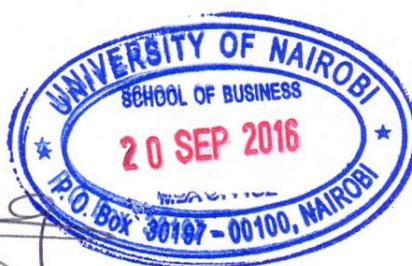
Registration No. DG1/74626/2014

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.




PATRICK NYABUTO
SENIOR ADMINISTRATIVE ASSISTANT
SCHOOL OF BUSINESS

Appendix II: Research Questionnaire

SECTION A: PERSONAL DATA

1. What is your Gender?
Male Female

2. Kindly Tick against your Age bracket (years)?
18 – 24 25 – 30
31 – 35 36 – 40
41 and above

3. Education Qualification
Primary Tertiary College/ University
Secondary Others (please specify).....

4. Kindly Tick against your Sector as listed below or specify where necessary
Shipping
Transport
Hospitality & Tours
Insurance & Security
Construction & Hardware
Booksellers & Publishing
General Trading

5. Number of Employees _____
1 – 10 26 – 50
11 – 25 51 and Above

SECTION B: ONLINE TAX REGISTRATION

6. Does your Business have Internet connectivity?
Yes [] No []
7. Has your company embraced automation as a way of doing business?
Yes [] No []
8. If No in the 7 above, kindly state why
Expensive [] Business small so no need []
Lack of know-how []
Others (please specify).....
9. Have you been trained on Online service portal (iTax)
Yes [] No []
10. If Yes in 9 above, have you registered as an online user with KRA?
Yes [] No []
11. If No in both 9 and 10 above, kindly select which statement best explains why

Reason	Kindly Tick (√)
Has never been trained on iTax	[]
Not yet a priority for this business	[]
Required computer skills which are lacking	[]
Online system will be too costly for the small business	[]

SECTION C: iTAX AND FILING OF TAX RETURNS

12. Have you been filing your tax returns online?

Yes [] No []

13. If yes in 12 above, please tick against the taxes you/your company are/is currently registered for with KRA

Service(s)	Kindly Tick (√)
Turnover Tax(TOT)	[]
Pay As You Earn (PAYE)	[]
Value Added Tax (VAT)	[]
Withholding Taxes	[]
Income Tax Company (Corporate Tax)	[]
Income Tax Individual	[]

14. Please state your level of agreement or disagreement with the following statements. The scale ranges from Strongly Agree (1), Agree (2), Not Sure (3), Disagree (4) and Strongly Disagree (5)

No.	Item	1	2	3	4	5
1	We file VAT 3 return on-line by due date					
2	We file Corporate Tax Return on line by due date					
3	We file PAYE Return on-line by due date					
4	It is less expensive to do manual filing of tax returns than on-line filing					
5	On-line filing of returns has improved our compliance levels					
6	On-line filing saves on money and time					

SECTION D: iTAX AND TAX PAYMENTS

15. Kindly state your level of agreement or disagreement with the following statements . The scale ranges from **Strongly Agree (1), Agree (2), Not Sure (3), Disagree (4) and Strongly Disagree (5)**

No.	Item	1	2	3	4	5
1	KRA online has ease tax remittances					
2	Paying tax online is more accurate					
3	Adopting online payments updates our ledger real time					
4	Server down time makes online payments a nightmare					
5	Accessing online payments during due dates is very hectic					

SECTION E: iTAX AND CHALLENGES

16. Which of the following challenges to do you ever experience with on-line filing services

Kindly tick where applicable

- 1. KRA server is always down
- 2. No connectivity
- 3. On-line filing is too slow
- 4. It is too costly for the company
- 5. Our staff are not well trained on how to use it
- 6. Management support for on-line filing is lacking
- 7. Other reasons, kindly state

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

Thank you very much for your patience, cooperation, and support for my research.