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**Effect of Tax Reforms on Voluntary Tax Compliance Among Small and Medium
Enterprises in Kenya: A Case of Nairobi County**

Nelly Ngina Musyoka

**A Research Project Submitted in Partial Fulfillment of the Requirements for the Degree
of Masters of Commerce, Forensic Accounting at Strathmore University**

**Strathmore Business School
Strathmore University
Nairobi, Kenya**

June, 2019

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Nelly Musyoka

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ABSTRACT

Despite the crucial role played by SMEs in raising tax revenues and the tremendous growth experienced in this sector, the tax gap within this sector is still very high reaching about 33.1% to 35%. This has been attributed to among other factors low voluntary compliance levels. To deal with this trend, the government has over the years instituted various tax reforms. Nevertheless, the impact of these tax reforms on voluntary compliance levels is mixed and hence, this study sought to clarify these findings. The aim of the study therefore, was to assess the effect of tax reforms on voluntary tax compliance among SMEs in Nairobi County, Kenya. The study sought to establish the effect of technological tax reforms on the voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya; to determine the effect of administrative tax reforms on the voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya; to examine the effect of tax payer education reforms on the voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya; to find out the effect of tax policy reforms on the voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya and to establish the joint effect of tax reforms on the voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya. The study covered the reforms undertaken for the period 2008 to 2018. The study was guided by the economic deterrence theory, the Allingham and Sandmo theory and the fiscal psychology models. The study applied a mixed methods research design. The study targeted all the 8983 licensed SMEs within the Nairobi CBD and 27 KRA officials handling tax issues within the Nairobi CBD region. In selecting the sample, simple random sampling and purposive sampling were used. Primary data using semi-structured questionnaires and structured interview guides was collected. The data analysis was undertaken using qualitative and quantitative approaches. A multiple linear regression model was used to show the link between tax reforms and tax compliance among SMEs in Nairobi County. The study findings showed that all the tax reforms had a positive and significant isolated or individual effect on voluntary tax compliance among businesses under study. Results on the combined effect of tax reforms on voluntary tax compliance among these businesses revealed that technological tax reforms, administrative tax reforms, taxpayer education reforms and tax policy reforms had a joint positive and significant effect on voluntary tax compliance among SMEs in Nairobi County. The study therefore concluded that implementation of effective tax reforms simultaneously was likely to improve the level of voluntary tax compliance among SMEs. Several recommendations were made in line with the findings obtained.

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LIST OF ABBREVIATIONS

CBD	Nairobi Central Business District
CCRS	Common Cash Receipting System
ETRs	Electronic Tax Registers
GDP	Gross Domestic Product
ICPAK	Institute of Certified Public Accountants of Kenya
IT	Information Technology
ITMS	Integrated Tax Management System
ITR	Integrated Tax Register
KIIs	Key Interview Informants
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KRA	Kenya Revenue Authority
MTO	Medium Taxpayers' Office
OECD	Organization for Economic Co-operation and Development
PAYE	Pay-As-You-Earn
PIN	Personal Identification Number
SAS	Self-Assessment System
SMEs	Small and Medium-Sized Enterprises
SPSS	Statistical Software for Social Sciences
TIN	Taxpayer Identification Number
TMP	Tax Modernization Programme
TODs	Tax Office Directorates
TOT	Turnover Tax
VAT	Value Added Tax

DEDICATION

I humbly dedicate this research to God who has given me the strength, knowledge and wisdom to complete this research. I dedicate this research to my Dad and Mom who gave me the final push I needed to finish my research. I also dedicate this work to my husband Robert Chege for his love and support and my daughter Wambui for her ever cheerful spirit. Lastly, I dedicate this research to my siblings for the love and support they have given me throughout my life.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Worldwide, taxation is one of the government policy instruments used to achieve equity and efficiency in the economy (Avi-Yonah, 2006). Taxation is the known practical source of public finance in many economies, besides other sources like non-tax revenue such as user-fees and licenses charged for services rendered by government department and agencies and foreign aids (Tresch, 2014). Tax collected by governments majorly depends on taxpayers' voluntary compliance whereby the taxpayers fulfill their tax obligation freely and completely. However, developing economies face challenges of raising sufficient tax revenue to finance the ever increasing public expenditures due to noncompliance amongst the taxpayers (Marti, 2010).

In many economies around the globe, small and medium-sized enterprises (SMEs) have emerged as the potential and unexploited tax revenue to address bedeviling fiscal deficits (Loeprick & Engelschalk, 2011). According to Ward (2005), there is no universal definition for SMEs since the definition relies upon who is characterizing it and where it is being characterized. This examination receives Kenya's authentic definition, where SMEs are characterized by work estimate: small enterprises have 10-49 employees while medium measured enterprises have somewhere in the range of 50 and 99 employees.

Small and medium enterprises are the real business taxpayers in most creating nations and all things considered their consistence levels legitimately sway on government tax income accumulations (Atawodi and Ojeka, 2012). SMEs are unstable foundations that need exceptional treatment. The majority of them stay in the casual area since they feel the expense of consistence is excessively high. Also, an impressive number of the individuals who pay just do as such in light of the fact that they are forced by the experts (Institute of Economic Affairs, 2012).

There exists differences in tax compliance among SMEs and large businesses. First, since the individual SME pays an extremely limited quantity of tax contrasted with what the bigger foundation would pay, tax experts will in general give the bigger companies more consideration (Mutai, 2013). This implies a decent number of SMEs pull off not making good on their regulatory obligations consequently income that would some way or another have been put

resources into advancement extends that will finish up being of advantage even to the SMEs is lost (Ibid.). Private ventures face staggering expenses agreeing to the tax code, both in total and in respect to huge organizations. In the meantime, independent companies are bound to come up short on their taxes (Marron, 2014). Since they regularly bargain in real money and take part in exchanges that are not answered to the tax specialist, private ventures can downplay their incomes and exaggerate their costs and along these lines come up short on their taxes. Some underpayment is coincidental, mirroring the trouble of conforming to complex tax framework, and some is purposeful. High consistence costs inconvenience capable private companies, while the more noteworthy chance to come up short on taxes favorable circumstances less capable ones (Akinboade, 2015).

These issues therefore, portray a situation that needs to be corrected given that their overall tax revenue contribution hardly goes beyond five per cent of total tax collection (Mutua, 2011). They are commonly referred to as hard to tax taxpayers characterized by low tax compliance which can be either by ignorance or by intent (OECD, 2012). Hence, governments are striving so hard to deal with this challenge by introducing tax reforms. Countries all over have been undertaking tax reforms aimed at widening the tax net so as to bring informal sector into tax blanket.

1.1.1 Voluntary Tax Compliance

Voluntary tax compliance which is the focus of this study is the willingness of entities to comply with law and administration on taxation without being forced to (Kanyinga, 2016). Voluntary compliance is made conceivable by the trust and participation following between tax expert and taxpayer and it is the ability of the taxpayer all alone to consent to tax specialist's mandates and guidelines. Deliberate tax compliance alludes to a suspicion or rule that taxpayers will agree to tax laws and, all the more critically, precisely report their pay and findings sincerely (Manhire, 2015).

This examination receives the definition by Jones (2009) that willful tax compliance is the opportune filling and announcing of required tax data, the right self-assessment of taxes owed, and the auspicious installment of those taxes without authorization activity. From this definition, there are three components of tax compliance: recording, detailing, and installment compliance. Recording compliance alludes to whether the taxpayer presented the right structures to the income expert (Wasao, 2014). Revealing compliance alludes to whether the

arrival was exact, while installment compliance alludes to whether the taxpayer paid his/her announced tax obligation in an auspicious way (Gitaru, 2017). In this way, a taxpayer would be called rebellious if the three measurements are not appropriately cultivated.

For the most part, tax compliance is for the most part accomplished when greater part of taxpayers intentionally document their tax returns and make good on resultant government obligation liabilities as stipulated in the tax laws, without the intercession of the tax specialists through authorization (Mwangi, 2014). A high level of intentional compliance spares the tax experts from mind-boggling expense of income accumulation, ensures an enduring progression of income for advancement and helps the acknowledgment of different tax approaches (Fuest & Riedel, 2010).

In clarifying taxpayers' compliance conduct, that is, the reasons why taxpayers agree and don't consent, there are extensively two classes of theories to be specific monetary based theories which accentuate motivating forces, and brain science based theories which underscore frame of mind (Trivedi & Shehata, 2005). Monetary theories of tax compliance are likewise alluded to as deterrence hypothesis. As indicated by Trivedi and Shehata (2005) referred to in Lumumba, Wanjohi, and Magutu (2010), monetary theories recommend that taxpayers "play the review lottery," that is, they make counts of the financial outcomes of various agreeable option, for example, regardless of whether to avoid tax; the likelihood of recognition and results thereof, and pick the elective which boosts their normal after tax return/benefit.

Psychological theories of tax compliance accept that mental variables including good and moral concerns are additionally imperative to taxpayers thus taxpayers may agree even where the danger of review is low (Kirchler, 2007). Psychological research theories de-accentuate reviews and punishments and rather center around changing individual frames of mind towards tax framework. Trivedi and Shehata (2005) inferred that a few taxpayers' conduct may pursue financial theories while others may pursue the mental theories and a blend of the two is additionally conceivable.

The deterrence model has been reprimanded and a few examinations have demonstrated the restrictions of requirement systems (e.g., Graetz and Wilde 1985, Alm, McClelland and Schulze 1992, Frey and Feld 2002). In particular, Kornhauser (2007) presented that this deterrence hypothesis, nonetheless, represents just a minor segment of real compliance levels. It has such poor illustrative power since it expects that the choice to agree depends entirely on

a money saving advantage examination in which individuals normally gauge the advantages of resistance against the expenses of identification and punishments. In this respects, Frey (1997) exhibits that inborn inspiration is additionally applicable for clarifying compliance conduct. The feeling of Frey (1997) is suggestive as expressed already, that there is unattended extent of orderly compliance unexplained by implementation systems and the general deterrence hypothesis and this makes the stage for analyzing intentional tax compliance

Voluntary tax compliance among SMEs is varied among nations. Helhel and Ahmed (2012) reveal that SMEs in Yemen voluntarily comply with the tax regulations of the country. In Brazil, Roth et al. (2015) notes that that it is the fear of stiff tax penalties, which compel SMEs to comply with tax laws. In Botswana, Nkwe (2013) reveals that as result of favourable tax environment, high voluntary compliance among SMEs has been encouraged. Gilligan and Richardson (2015) in a culturally diverse investigation found that intentional compliance was most reduced in Australia because of absence of tax information inside the nation and the most noteworthy was in Singapore in light of the tax learning given to the people before they set out on a business.

In Rwanda, Alm et al. (2012) notice that the vast majority of the SMEs don't have the information of tax guidelines and in this manner don't intentionally consent. Cuccia (2013) records poor deliberate compliance dimensions of SMEs with tax guidelines in an investigation situated in Malaysia since they don't put stock in the tax framework. In Zimbabwe, SMEs don't sufficiently follow tax laws as per Nyamwanza et al. (2014). Their exploration uncovered that most SMEs avoid tax by paying rewards, migrating or briefly shutting business during compliance barrage. In Tanzania, Lubua (2014) points out that SME taxpayers did not willfully document their profits as legally necessary.

Small taxpayers in Kenya were brought to tax section in the year 2006 through the Finance Bill of 2006 which presented Turnover Tax (TOT), before then little taxpayers would willfully enlist as tax payers. Most SMEs don't make good on the regulatory expenses and tax avoidance among SMEs stays far over the ground, with a tax hole inside the SME part going from about 33.1% to 35% (KRA, 2015). As indicated by Terkper (2013), numerous little and medium taxpayers don't enroll deliberately, while the individuals who do enlist frequently neglect to keep satisfactory records, document tax returns, and settle their tax liabilities quickly. Analysts (Frey and Feld 2002; Feld and Tyran 2002; Frey and Torgler, 2002) have ascribed the reaction of intentional compliance to a lot of inherent inspiration or demeanor regularly alluded to as

tax spirit. Consequently, positive resolve may flag higher deliberate compliance while negative assurance will flag lower intentional compliance. Levi (1988) contended that on the off chance that it is seen by the taxpayers that the rate of change from tax to open merchandise is low then the taxpayers will feel that the administration has not kept its commitment of the agreement, thus, the tax spirit will be influenced contrarily which would bring about breaking down intentional compliance.

Thus, in the independent venture setting, open doors for avoidance are high and assets are frequently rare for field reviewing. Notwithstanding when high speculations are made in examining, revealing unreported benefits is never going to be a simple undertaking without a satisfactory review trail (Ahmed and Braithwaite, 2015). The need to improve deliberate tax compliance has brought about the different tax changes endeavors by governments around the world.

1.1.2 Tax Reforms in Kenya (2008-2018)

Tax reform is a main component of macroeconomic policy. Tax reforms are considered as the most important part of fiscal policy and also in agreement with monetary policy (Holban, 2007). Tax reform is the process of changing the way taxes are collected or managed by the government (Mahon, 1997). Tax reforms are a necessary tool to ensure that domestic revenue base is regularly protected and nurtured (Gituku, 2011). The reforms ensure that tax administration is efficient and increase taxpayer compliance since they are aimed to reduce the incidence of tax evasion by both individuals and business entities (Okafor, 2012). In addition, it can be noted that the reforms are not only geared for KRA tax administration but to build trust among taxpayers especially through the various seminars the revenue authority officials hold with the stakeholders (ICPAK, 2011).

The aim of tax reform is to raise revenue effectively in consistence with each country's uniqueness and administrative capacity (Kanyinga, 2016). Analyzing a country's situation before employing any tax reform results to a proper functioning tax system. The objective of tax reforms is to save collection cost while reducing the revenue loss as well as minimal economic disruption, less inequity and reduction in tax burden. Mostly, tax reform seeks to improve the efficiency and productivity of taxation (Wagacha, 2009). However, mixed findings exist pertaining to the effect of tax reforms on tax productivity.

According to Bjork (2013), effective implementation of tax reforms improves compliance and reduces non-compliance which implies more tax collection. The iTax system was launched in Kenya in the year 2011, is implemented by Indian firm Tata to replace the previous online system (ITMS). The system allows businesses and individuals to file their returns online, view their tax dues and monitor tax status 24 hours a day, upload tax files, request for compliance certificates and actual tax payments. The system integrates more than 30 banks to ensure that most taxpayers are covered. The iTax system has simplified and quickened tax compliance and secured the exercise, thus bringing down the cost of tax compliance in logistics. Continued implementation and operationalization of the iTax system in Kenya is expected to enhance revenue yield through deepening of the tax base, reducing compliance cost and improving revenue administration (Economic Survey, 2015).

In October 2014, KRA also launched the KRA M-Service platform, a mobile phone application that facilitates tax payment and taxpayers' access to tax information (Gupta, Keen, Shah, & Verdier, 2017). It has two service components: informational services, and mobile payment of all taxes and e-slip generation for traffic revenue fees. The informational service enables taxpayers to access specific information from the KRA by text message. The mobile payment of all taxes and e-slip generation component conveniently allows taxpayers to make quick, simple payments of up to 140,000 Kenyan shillings per day through their mobile phones as at the time of implementation. The service is available on Safaricom M-Pesa and Airtel Money platforms. The payments made are cleared, processed, and credited to the KRA account in real time, and the taxpayer retains the payment confirmation SMS from the mobile financial services provider as proof of payment to the KRA. At the individual level, once a tax assessment or fees are determined, it becomes easier to move back to the M-Pesa platform to effect payments and receive responses from the iTax system. Its effect on voluntary tax compliance in particular SMEs has not been empirically investigated.

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

of tax compliance (KRA, 2011). However, this tax had presented regulatory moves attributable to the trouble of self-assessment of the small and medium enterprises in the informal division. This prompted presentation of the presumptive tax on small organizations which was at 15% of the sum payable under the business grant or exchange permit issued. It was introduced in the 2018 finance bill and came into effect in 2019 January. Its impact on voluntary tax compliance among these businesses remains unexplored.

Furthermore, tax clinics and seminars are forums organized by Kenya Revenue Authority periodically for tax payer education programmes in different locations to assist in tax knowledge. Tax summits are also a key component of the tax education reforms in which various industry stakeholders are invited to give key recommendations that will improve tax administration and the tax culture (ICPAK, 2015). The Taxpayer Education Services seek to educate newly registered taxpayers through seminars held on monthly basis. The unit holds seminars and workshops for existing taxpayers on a proactive or reactive basis (KRA Website, 2011).

Each year, thousands of Kenyans apply for PIN numbers either for their businesses or their own use. In order to encourage SMEs to acquire PINs, PIN registration for taxpayers has been decentralized and powers to do so passed to self or cyber cafes to make the process easier. According to www.kra.go.ke, an average of more than 30,000 new taxpayers were being registered monthly. Nevertheless, the impact of this tax reform on voluntary tax compliance especially among small and medium businesses also remains unexplored.

Another reform pertains to the requirement of all people who want to trade with the government to have a tax compliance certificate (TCC). In its implementation, every person dealing with government offices is required to produce a Certificate of Tax Compliance/Clearance. This will ensure compliance since one cannot get a TCC if they are non-compliant in terms of filing returns. It, however, depends on co-operation from other government offices (KRA, 2015). The impact of this tax reform on voluntary tax compliance particularly among SMEs was evidently missing.

Other tax reforms that have been implemented within the timeframe under study are the introduction of KRA 24-hour call centers, customer care centers at Huduma centers and mobile centers in times of filing tax returns and reintroduction of WHVAT in September 2014 at 6%. Withholding VAT was first introduced in Kenya in the year 2003 then suspended in 2011 but

later re-introduced in the year 2014 (Nyangau, 2017). Its reintroduction was to enhance accuracy and highlights inconsistencies in submission of taxes. There are some SMEs which are briefcase suppliers and when they traded with the government, they disappeared and could not be traced and did not file returns. With WHVAT, the data was sent to KRA and the credits reflect on the taxpayer ledger which makes the taxpayer file their VAT returns and declare all other income. They will also be forced to file income tax return at the end of the year. Nevertheless, studies showing the link between these tax reforms and voluntary tax compliance among SMEs are missing especially within the Kenyan context. This underscored the importance of carrying out this study in order to make a decisive conclusion pertaining the effect of tax reforms on voluntary tax compliance particularly among SMEs in Kenya.

1.2 Statement of the Problem

Tax plays an important role in the growth of any economy so tax noncompliance is harmful to the economy. Tax non-compliance hampers government revenue gathering along these lines wastefulness in government spending since it lessens the limit of the state to prepare household incomes, assets that are required for ventures. Small and medium enterprises (SMEs) are the real business citizens in most creating nations and in that capacity their consistence levels legitimately sway on government charge income accumulations (Atawodi & Ojeka, 2012).

The increasing trend of disparity between the levels of submitted annual income tax returns, reported tax assessments and voluntarily paid tax liabilities, among SMEs, on the one hand, and the trend of business birth and growth, on the other hand, has been a cause of worry to the government of Kenya. According to Kenya Parliamentary Budget Office (2011), SMEs make up of 98% of all registered businesses in Kenya, contributed 34.3 per cent to GDP, and with tax potential of Kenya shilling 79 billion but actual collection is less than one billion. The SMEs' have continued to be non-compliant (Mage, 2012).

Inorder to tackle tax noncompliance, the government had instituted a number of tax reforms. Nevertheless, it has not yet been concretely established as to whether the said reforms have achieved targeted voluntary tax compliance by SMEs as envisaged or not. The effect of various tax reforms such as the replacement of ToT with presumptive tax, introduction of KRA M-Service, reintroduction of withholding VAT and the requirement of tax clearance certificate on voluntary tax compliance among SMEs remained evidently unexplored in Kenya. Furthermore, the existing literature showed there existed mixed findings. For instance, Munyoro (2017)

found that iTAX system had a positive effect on tax compliance which contradicts the findings of Livoi (2017) who found that iTAX system had no significant effect on tax compliance among SMEs. The review of existing literature also showed that the studies relating tax reforms with voluntary tax compliance among SMEs was missing as existing studies did not distinguish whether the tax compliance explored was voluntary or involuntary. Hence, this study was crucial in addressing the study problem and also the knowledge gaps identified in literature.

1.3 Objectives of the Study

1.3.1 General Objective of the Study

The general objective of the study was to assess the effect of tax reforms on voluntary tax compliance among SMEs in Nairobi County, Kenya.

1.3.2 Specific Objectives of the Study

- i. To establish the effect of technological tax reforms on the voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya.
- ii. To determine the effect of administrative tax reforms on the voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya.
- iii. To examine the effect of tax payer education reforms on the voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya.
- iv. To find out the effect of tax policy reforms on the voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya.
- v. To establish the joint effect of tax reforms on the voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya.

1.4 Research Questions

- i. What was the effect of technological tax reforms on voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya?
- ii. What was the effect of administrative tax reforms on voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya?
- iii. What was the effect of tax payer reforms on voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya?

- iv. What was the effect of tax policy reforms on voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya?
- v. What was the joint effect of tax reforms on the voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya?

1.5 Significance of the Study

The study findings would be of great benefit to KRA officials in gauging their efficiency in implementing the various tax reforms meant to enhance voluntary tax compliance among SMEs in the county. The findings would assist them in weighing the most appropriate approaches to encouraging the small and medium businesses to be voluntarily tax compliant and what administrative measures they could take to enhance the effective enforcement of the relevant tax reforms. The study would also assist the Kenya Revenue Authority by providing concepts and grounds on which to develop a framework for exploring voluntary tax compliance behavior among SMEs and how to craft tax policies that were suitable for SMEs. The study findings would provide immense knowledge that would assist the revenue authority to gain a better understanding of the issues or emerging trends in non-compliance among SMEs and how tax reforms could be tailored to minimize tax evasion.

The study findings would also benefit government decision and policy makers in auditing the effectiveness of existing tax policies and reforms and in this way, be in a position to pin point the areas for review and redesigning the existing reforms in order to increase the efficiency in enforcing voluntary tax compliance among the small businesses.

The study findings if implemented would enlighten the owners of small and medium enterprises on the existing tax reforms and ways in which they affected their businesses and how they could become more voluntarily tax compliant by embracing a number of reforms in a less costly way.

The study would also benefit other scholars who wished to pursue further research in this study area. The study would also extend the body of knowledge in this study area and could provoke further areas of research.

1.6 Scope of the Study

This study was limited to assessing the effect of tax reforms on voluntary tax compliance among SMEs in Nairobi County, Kenya. Even though there were several tax reforms, the study limited itself to assessing the effect of technological tax reforms, administrative tax reforms, taxpayer education reforms and tax policy reforms on voluntary tax compliance among SMEs in Nairobi County. The study considered the tax reforms carried out for the period 2008 to 2018. Given the vastness of Nairobi County and a large number of SMEs in this county, the study targeted SMEs located at the Nairobi Central Business District. The respondents were the SME owners or a general manager in the enterprise to represent each business. The study was undertaken in 2019.

CHAPTER TWO

LITERATUR REVIEW

2.1 Introduction

This chapter gives a discussion of the existing scholarly works in the area of tax reforms and their effect on voluntary tax compliance especially among small and medium enterprises from a global, regional and local perspective. First, the theories forming the foundation of the study are outlined and their relevancy to the study is presented. The most current empirical studies related to the study topic are also reviewed and critiqued to reveal the research gaps. The conceptual framework for study is further presented to show the expected relationship between the independent variables and the dependent variable.

2.2 Theoretical Framework

This study was founded on the Economic Deterrence Theory, the Allingham and Sandmo Theory and the Fiscal Psychology Models. The relevance of each theory to the study was provided.

2.2.1 Economic Deterrence Theory

The economic based theory also known as deterrence suggests that the taxpayers try to maximize on the benefit associated with tax evasion, through “playing the audit lottery” (Trivedi & Shehata, 2005). The probability of detection for audit, coupled with the consequences either encourages or deters taxpayers. The taxpayers finally make a choice of the alternative which maximizes their economic benefit, hereby discussed as after-tax return. For such taxpayers, Cuccia (1994) argues that increasing audit visits, interest and penalties would affect their compliance levels.

The economic deterrence theory was first discovered in the late 1960s from crafted by Becker, who broke down illicit conduct utilizing a financial express that taxpayer's conduct is affected by variables, for example, the tax rate deciding the advantages of evasion, and the likelihood of recognition and punishments for extortion which decide the expenses. This infers if location is likely and punishments are extreme, few individuals will dodge taxes. Deterrence can be accomplished through various methodologies, corrective and enticing (Becker, 1968).

Conversely, under low review probabilities and low punishments, the normal come back to evasion is high. The model at that point predicts considerable noncompliance. For instance, the dread of getting captured, or the likelihood of recognition, has been observed in certain settings to be an effective technique to prompt honest conduct. The hypothetical standards of monetary deterrence have likewise been broadly embraced by tax organizations when creating implementation procedures that depend basically on punishments and the dread of getting captured (Sandmo, 2005).

2.2.2 The Allingham and Sandmo Theory

Allingham and Sandmo (1972) tax compliance theory known as Allingham and Sandmo theory argues that the government deters tax evasion through a sanction arrangement and audits.

Taxpayer will decide to violate the fiscal laws and evade his or her tax obligations when he or she perceives that the cost of evading tax is too low, believing that he or she is unlikely to be detected or audited. Taxpayers would also evade tax when he or she perceives the cost of compliance is high. Tax systems and procedures that are involving and cumbersome tend to encourage tax evasion. Taxpayers who feel that tax rate is high and punitive will evade tax. There is a negative correlation between evasion of tax, the likelihood of detection, the magnitude of punishment and high transactional costs associated with tax laws.

Income tax evasion was spearheaded by Allingham and Sandmo (1972), where a judicious and an ethical taxpayer expands anticipated utility, which exclusively relies upon pay. Whenever got, the operator must pay punishments, forced on the measure of dodged salary. A key relative static outcome is that when the tax rate goes up, contending salary and substitution effects may prompt pretty much tax compliance. The substitution effect empowers evasion since the minor advantage of swindling goes up with the tax rate. Despite what might be expected, the pay effect will in general stifle evasion since a higher tax rate makes the taxpayer with diminishing total hazard avoidance feel more awful off, and hence lessening danger taking. Hence, the net effect is equivocal.

In any case, Shlomo Yitzhaki (2002) demonstrated that when the punishment is forced on the measure of sidestepped taxes, all things considered under most current tax laws, the substitution effect disappears. At the first ideal, the punishment paid on disguised salary increments relatively with the tax rate, and consequently, there is no substitution effect. The rest of the salary effect is in charge of initiating the taxpayer to swindle less. Subsequently, the net effect is better compliance. Yitzhaki's (2002) result is maybe the absolute most significant finding in the early tax evasion writing, having prodded a ton of wonderful extensions. The SMEs are prone to tax evasion as they face difficulties in complying with tax laws. They are expected to comply with strict deadlines, keep proper books of accounts. This kind of environment leads to tax evasion.

2.2.3 Fiscal Psychology Models

The theory of Planned Behavior which was developed by Ajzen (1991) and states that Psychology theories of tax compliance assume that psychological factors – like moral and ethical concerns are also significant to taxpayers and thus taxpayers may comply even where the risk of audit is low. This theory of tax compliance assumes that psychological factors

including moral and ethical concerns are also important to taxpayers. Regardless of the risk of being caught, the taxpayers' attitude to voluntary compliance would still remain high (Aim and McKee, 1998). Psychology theories de-accentuate reviews and punishments; rather center around changing individual demeanors towards tax framework (Trivedi & Shehata, 2005).

As indicated by this hypothesis, practices of the people inside the general public are affected by explicit components, begin from specific reasons and do the trick in an arranged manner. The capacity to play out a specific conduct relies upon the way that the individual has a reason towards that conduct (social aim). Conduct goal thusly relies upon three factors that is Attitude towards the conduct, Subjective standards and Perceived social control (Cobham, 2005). These three components are likewise affected by social convictions, standardizing convictions and control convictions. The focal point of this hypothesis in this way is on the taxpayer's ethics and morals. The hypothesis recommends that a taxpayer may go along notwithstanding when the likelihood of location is low. Instead of the financial speculations that underscore on expanded reviews and punishments as answers for compliance issues, mental hypotheses lay accentuation on changing individual frames of mind towards tax frameworks.

Trivedi and Shehata (2005) demonstrated that a few taxpayers' conduct may pursue monetary speculations while others may pursue the mental hypotheses and a blend of the two is conceivable. Governments driven by the desire to increase compliance for psychology based taxpayers do so by increasing taxpayer education, reducing operational costs of return filing. Aim and McKee (1998) argue that amnesty offer and the subsequent participating is one way of educating the taxpayers on the procedures and legal implication of evasion.

2.3 Empirical Review

This section encompasses a discussion of the existing empirical studies that had been conducted to the link between tax reforms and voluntary tax compliance among SMEs. The discussion is guided by the specific objectives of the study after which a critique of reviewed literature is done in order to identify the research gaps. In this section, technological tax reforms discussed consist of the iTax system and KRA M-Service while administrative tax reforms discussed include the decentralization of PIN registration to self and cyber cafes, introduction of customer care centers at Huduma centers and mobile centers, KRA call centers and the requirement of tax compliance certificate in transacting or acquiring some services from government. The third section pertains to taxpayer education reforms focusing on the taxpayer clinics,

sensitization/outreach campaigns through print and electronic media and tax summits for taxpayer engagement. Under the tax policy reforms, the reintroduction of withholding VAT and presumptive tax to replace ToT are explored.

2.3.1 Technological Tax Reforms and Voluntary Tax Compliance

I-Tax system or e-pay is among the major technological tax reforms introduced iTax or e-pay through a Common Cash Receipting System (CCRS) by KRA (Gichuki, 2015). This is a web-based system that enables taxpayers to file returns online, and more importantly, make payments online for customers whose banks support the system (Kipkemoi, 2015). iTax is an online platform that enables one to register, file tax returns, process payments and make status enquiries in real-time. Commercial banks are integrated into the system, and a service level agreement entered into to govern the relationship. Generally, iTax is a computer based application system that furnishes a fully-integrated and automated solution for administration of government revenue enhancements.

A number of studies have been undertaken to show the link between technological reforms in particular iTax system and tax compliance and mixed findings have been observed. Munyoro (2017) evaluated the effects of recently made changes from the integrated tax system to the iTAX system aimed at encouraging use of the internet to file taxes on compliance of VAT payments by SMEs in Kenya using a case study of Wote Town in Makueni County, Kenya. The study adopted a combination of descriptive and diagnostic research designs. The study found that iTax system particularly registration of VAT taxpayers using iTax, filling of VAT returns online, and tracking VAT tax defaulters had a positive and significant effect on the tax compliance of the SMEs under study. The increased tax compliance was associated with reduced cost, simplicity and time required to file returns for registered SMEs which encouraged the SMEs to avoid tax evasion. According to the study, iTax system had made it easy and convenient for taxpayers to file their periodic tax returns anywhere any time besides enabling SMEs taxpayers to handle their tax affairs themselves which influenced increased compliance. The iTax system also enhanced the SMEs level of understanding on KRA tax systems The study further found that VAT paid by traders was properly assessed by KRA due to use of embedded integrated software for tracking purposes in the iTax system which enhanced compliance by reducing their avenues for tax evasion.

Malonza (2016) assessed the effect of iTax use on corporation tax compliance by medium corporate taxpayers in Kenya. The study applied a descriptive study design. The study found that the usage of iTax resulted to increased compliance by medium taxpayers in Kenya. According to the study, iTax had made corporation tax compliance simple by ensuring that the annual returns which involved entering substantial data from audited financial statements could not be submitted with an error as the iTax system would not accept the upload and directed the taxpayer to what was wrong with the record. Furthermore, the taxpayer was able to file their corporation tax, do payment registration on reported tax and generate payment slip all on iTax for submission to the bank for payment. The questions on iTax friendliness, filing of returns without being reminded and meeting of deadlines by companies in their filing and payment of taxes supported this finding.

Kanyinga (2016) investigated the effect of tax reforms on compliance with turnover tax among small and medium enterprises in Industrial Area, Nairobi. The study used a descriptive survey research design. The found that taxpayers' e-Registration and e-Filing had positive and significant effect on tax compliance in SMEs sector. The study noted that a majority of the SMEs under study used e-tax registration and filed their returns online. This reduced tax compliance burden and made submitting tax returns easier as taxpayers did not have to queue at revenue authority filing returns. The SMEs agreed that the introduction of iTax were the main drivers to compliance and hence more revenue collection.

Wasao (2014) examined the impact of online tax system on tax compliance among small taxpayers in East of Nairobi Tax District. The study applied a descriptive study design. The study findings demonstrated that online system namely online registration, filing and payments had a significant positive effect on tax compliance of the small taxpayers in this area even though the degree of compliance differed across sectors. The study found that small taxpayers in mining and mines sector seemed not to have embraced online filing. It was found that online system made the registration of taxpayers easy. While a number of taxpayers agreed that with online system payments were more accurate and their tax ledgers got updated in real time, majority however, had reservation with accessibility especially on due dates due to server downtimes.

Barako (2015) assessed the efficacy of iTax system on tax administration in Kenya. The study was descriptive in nature. The study found that iTax implementation led to an increase in the variability of the revenue return. This was attributed to the simplification, standardization and

harmonization of tax procedures to reduce inefficiency within tax administration. According to the study, iTax led to simpler and more streamlined processes to pay and collect taxes, reduced tax officials' discretionary power, increased predictability, lessened the burden for firms and individuals to comply and hence reduced the opportunities for corruption. This resulted improved efficiency in tax administration.

Contradictory results were identified in the study by Livoi (2017) who analyzed the effect of tax reforms on corporate tax compliance in Kenya. A descriptive study design was employed. The study found that while technological reforms in particular iTax was a key factor in enhancing corporate tax compliance, its effect was weak to influence corporate tax compliance. These findings implied that the intended success in increasing tax compliance was yet to be met. The study highlighted that in as much as companies filed their return online, not all companies filed their correct tax liability, others manipulated their tax liability for other gains. Also, not all PINs had migrated to the KRA online platform.

2.3.2 Administrative Tax Reforms and Voluntary Tax Compliance

Tax administration generally refers to the aspect of “how to do it” in respect of a tax system. It is the mechanisms available for the achievement of “what to do” in respect of the various taxes. It is therefore the means to actualize the tax laws and systems and as such it is important for the achievement of the wider taxation goals (Gichuki, 2015). It is therefore distinct from substantive tax law. Tax administration is more to do with the framework that supports day-to-day management of revenue administration and covers systems, structures, management, leadership and organizational processes that enable a tax agency to meet its core mandate (Kenya Revenue Authority, 2010).

The essential function of the tax administration is to examine consistence and furthermore to authorize approvals to guilty parties as gave in the principles and guidelines (Ng'eni, 2016). The compelling tax administration should be associated with recognizable proof, appraisal and accumulations of tax incomes (Gurawa & Mansor, 2015). Successful tax administration is a key hardware of tax income accumulations in both created and creating economy. Tax administration is significant and tax specialists need to configuration tax administration reform that can recognize bottlenecks (Baer & Silvan, 1997) that in one way or different influences tax administration activities.

As per Mutsotso (2006), regulatory reforms allude to the part of execution of tax framework. Silvani (2009) featured that the principle objectives of the tax administration reform system would rely upon the extent of the tax hole. The fundamental objectives are to keep up the current consistence level while decreasing the expense of consistence and tax accumulation; to acquire gains in consistence by improving key methodology; to get huge gains in consistence by significantly adjusting the way to deal with tax administration (Ibid.). Authoritative tax reforms plan to help governments in working out watched inside degrees of debasement, wrongdoing, and general managerial wasteful aspects in tax income accumulation (Ng'eni, 2016). Though tax laws make the potential for raising incomes, the genuine sums gathered depend to an enormous degree on the productivity and adequacy of the administration (Gill, 2003).

Among the most currently implemented administrative tax reforms in Kenya is the decentralization of PIN registration to self and cyber cafes, placement of customer care centers at Huduma centers and mobile centers, KRA call centers and the requirement of tax compliance certificate in transacting or acquiring some services from government. However, their effect on voluntary tax compliance remains unexplored.

Munga (2012) assessed the effectiveness of digital bistro administrators in issuance of Kenya Revenue Authority Personal Identification Numbers in Nyeri Town, Kenya. The investigation connected an expressive overview research plan. The examination found that out that digital bistro specialists whined about the nature of data that was accessible to the orderlies and general society on the loose. The entryway was found to have inconsistency issues and the specialists however did not affirm of the quality they were getting from the gateway, they valued that since Kenya Revenue Authority never again issued PIN, this brought more clients and greater wages. The study concluded that KRA had failed in creation of awareness and education to the general public on how PIN issuing system worked so that members of the public could serve themselves instead of engaging the cyber café attendants. The study highlighted that even the learned people, 68% feared approaching the system on their own and only 32% of the eventual attendants did self-learning of the system through trial and error.

Okore (2017) explored the approaches to enhancing tax compliance among briefcase companies in Kenya. The study was based on a document analysis approach. The study pointed out the evidence of operation and compliance with the various tax laws was crucial in enforcing tax compliance. The study noted that the main aim of tax compliance certification was to ensure

that any business dealing with government was a compliant on all tax requirements in that it had filed returns and paid tax due. According to the study, tax compliance certificates which had been strictly applied and was a requirement for all public procurements in Kenya were effective in enhancing compliance of these companies. The study found that the requirement for TCC was a major catch for the companies wishing to trade with the government as most of the businesses would want to be certified to gain the trust of the government and therefore goodwill.

Mutinda (2018) explored the strategic role of Huduma Centre Initiatives on public service delivery among residents of Nakuru County, Kenya. The study applied a descriptive case study design. The study found that initiatives have had a significant impact on public service delivery among residents. The study found that Huduma Centres had reduced the costs associated with access to government services. Reduction of distances was one of the major achievements of Huduma Centres as some of the basic government services were brought closer to the people through the counties. Furthermore, Huduma Centres were strongly believed to reduce the time required to access government services. The fact that Huduma Centres were designed to be a one stop shop for government services was incorporates time saving in moving from one government department to another in search for services.

2.3.3 Taxpayer Education Reforms and Voluntary Tax Compliance

With complex tax laws, taxpayers need to hold up under extra expenses so as to decipher the law and procedure tax returns (Oliver and Bartley, 2005). This will in general give the taxpayers a motivator to sidestep tax and consequently, gives a justification to forceful taxpayer instruction (Muriithi and Moyi, 2003). Taxpayer instruction can be portrayed as a strategy for teaching the general population about the entire procedure of taxation and why they should make good on government expense (Aksnes, 2011). It helps taxpayers in gathering their tax commitments to the administration. Taxpayer training is center to willful compliance. As indicated by Misra (2004), the fundamental target of tax payer training is in three folds: confer learning as respects tax laws and compliance; change taxpayer's frame of mind towards taxation and increment tax accumulation through intentional compliance.

There are numerous features to taxpayer education, including outreach programs, small ventures instruction programs, programs at post and auxiliary instructive foundations, specialist training, tax facilities, crisis help, media-data programs, and the appropriation of tax

structures and distributions (Gatora and Mokaya, 2018). Proficient instructors and grown-up training strategies encourage more prominent compliance by accentuating training over authorization. On the off chance that appropriately structured, taxpayer training and effort can be a proactive technique for upgrading compliance (Ibid.).

In Kenya, KRA established a Taxpayer Services Division under the Support Services Department. The function was incorporated to upgrade the viability of taxpayer training and improve coordination. Customer Care Desks were set up in all KRA Regions and real focuses. KRA effectively facilitated a TV program "A Working Nation Wins" went for proliferating the requirement for natives to pay a lot of taxes so as to help administration conveyance by the Government (Oyugi, 2008).

Print and media battles were acquainted with raise the dimension of mindfulness. The quantity of effort administrations to taxpayers and different arms of government were expanded; among the gatherings focused on incorporate the Provincial Administration and Internal Security, Judiciary and Members of National Assembly. The idea of Tax Clinics was embraced, with administration arranged methodology where taxpayers were instructed on different tax matters. During the clinics, taxpayers were allowed to air their complaints and make proposals on administration improvement. Administrations, for example, issuance of PIN Card, VAT enlistment, Income Tax returns, driving permit, TLB, PSV licenses for drivers and conductors, and move of logbooks were given nearby at the tax clinics (KRA, 2007).

Taxpayer education and services reforms have also been found to have mixed effects on tax compliance. Gitaru (2017) assessed the effect of taxpayer education on tax compliance in Kenya focusing on SMEs in Nairobi Central Business District. The study employed a descriptive research design. The study found that electronic taxpayer education, print media tax payer education, and stakeholder engagement undertaken by KRA and other public education institutions were positively related to tax compliance among the SMEs under study. The investigation discoveries asserted that taxpayers would promptly acknowledge any new framework presented, in the event that they had plentiful information to comprehend the framework. Henceforth, instruction projects were expected to upgrade taxpayers' capacity to comprehend self-appraisal framework and to expand their trust in satisfying their obligations as taxpayers. The investigation presumed that taxpayer instruction was important to build open mindfulness particularly in zones concerning taxation laws, the job of tax in national

advancement, and particularly to clarify how and where the cash gathered was spent by the legislature.

Oyugi (2008) analyzed the effectiveness of taxpayer education as a revenue collection strategy in KRA focusing on Nairobi Region. The focus was on the concept of 'Tax Clinics' adopted in 2005. The study applied a descriptive research design. The findings established that the taxpayer education strategy had enhanced revenue collection by KRA. The findings revealed that taxpayer education had enhanced the following aspects in regard to revenue collection: the public level of understanding on various taxes at KRA; tax compliance among non-cooperative taxpayers: reduction of tax evasion; and ease of filing tax returns by taxpayers. The study suggested the need for continuous improvement and expansion of taxpayer support services by KRA as a strategic shift towards the realization of some of the revenue collection goals.

Gotora and Mokaya (2018) investigated the influence of tax payer education on voluntary tax compliance in Tanzania focusing on the case of Monduli District Office. The study applied a descriptive study design. The study found that that education through print media, website-based taxpayer education, and tax stakeholders' workshops had a significant effect on the level of voluntary tax compliance in Tanzania. Further, print and electronic media taxpayer education programmes greatly improved voluntary tax compliance. These programs were found to improve the taxpayers' ability to understand tax laws, that is rates of tax, filing and paying dates among others.

Ejakait (2011) sought to establish the influence of taxpayer education carried out by KRA on tax compliance with a specific emphasis on the compliance on Pay-As-You-Earn (PAYE) form of tax. This study used a longitudinal survey design. The study focused on taxpayers in the manufacturing sector under medium taxpayers' office (MTO). The study found no statistically significant differences between educated and non-educated taxpayers in terms of their PAYE remittance and filling patterns. The study found that the level of taxpayer training had an insignificant negative relationship with the amount of PAYE tax that was remitted as well as with the PAYE pattern of fillings of the companies. The study concluded that taxpayer education did not have a significant influence on the tax compliance behaviour of manufacturing firms in Kenya. These findings are supported by that of Mutai (2013) who while assessing the determinants of tax compliance among small and medium enterprises in Uasin-Gishu County found that tax knowledge had no correlation with tax registration compliance but weak negative correlations with filing compliance.

Wadesango, Mwandambira, Mhaka, and Wadesango (2018) evaluated the impact of tax knowledge initiatives on tax compliance among small medium enterprises (SMEs) in a developing country. This was a desktop study. The study found that enhancing tax knowledge on its own without reforms to address the high tax rates and corruption would not positively impact on tax compliance behaviour among SMEs. The study found that even if taxpayers were aware of the uses of tax money and hence the importance of paying their taxes, they would still not comply if they perceived that there was not accountability and some of the funds were not used for their intended purposes.

2.3.4 Tax Policy Reforms and Voluntary Tax Compliance

Tax policy is an administrative apparatus that is worked to exact and gather taxes, through use of various taxes and premise of taxation (Congdon, Kling, and Mullainathan, 2009). Tax policy change is the way toward changing the way the taxes are gathered or overseen by a legislature. As indicated by Livoi (2017), tax policy change in creating nations is a piece of a more extensive monetary change exertion went for reestablishing macroeconomic security and at rebuilding tax frameworks so that taxes are progressively proficient, less distortionary of market powers and simpler to manage. Kirchler et al. (2010) clarify that the multifaceted nature of the tax laws and tax framework impact the choice to agree or to avoid taxes.

Tax reforms have various objectives, while some look to decrease the dimension of taxation surprisingly by the administration, others try to make the tax framework either increasingly dynamic or less dynamic (Kanyi, 2014). Though tax policy reforms started in 1986, regulatory reforms were started in 1995 when KRA was set up (Kariba, 2011). Kenya's tax framework has experienced pretty much constant change throughout the most recent twenty years. On the policy side, rate timetables have been excused and improved, another esteem included tax presented, and outer duties acquired line with those of neighboring nations in East Africa (Eissa and Jack, 2010).

Presumptive tax to replace Turnover Tax and the reintroduction of withholding VAT are tax policy reforms implemented presently in the country's tax system. Presumptive taxation includes the utilization of aberrant intends to find out tax obligation, which vary from the typical guidelines dependent on the taxpayer's records (Talam, 2014). The expression "presumptive" is utilized to demonstrate that there is a lawful assumption that the taxpayer's pay is no not exactly the sum coming about because of utilization of the circuitous strategy. It

includes straightforward and practical strategies to catch household exchanges and wellsprings of pay that regularly escape taxation under customary standards. A presumptive tax can be evaluated in two different ways. These include: First, assessing the taxpayer's salary evaluated on a particular premise. Besides, figuring taxable pay based on key components related with pay age, for example, deals, turnover, number of workers, size of the firm and taxpayer's benefits.

Withholding Tax is important for it is a tracking system for taxpayers who reduce their actual tax liability or evade on payment of tax due on taxable goods and services. When the income on which WHT is deducted at source the tax authorities are aware of the transaction between the withholding agent and the taxpayer therefore the tax withheld becomes a basis for the tax expected. The taxpayer has therefore an obligation to pay the balance after matching the actual tax liability against the tax withheld. For purposes of this study Withholding Value Added Tax was measured by the amount of revenue collected as Value added tax withheld by agents (Adhikari, 2015). Ndumia (2014) notes that WHVAT was scrapped owing to among other reasons, the fact that not all VAT amount withheld was remitted to KRA's account at the Central Bank of Kenya (CBK) which adversely affected the overall VAT revenue performance. WHVAT was re-introduced in 2014 in Kenya and the authority argues that it has increased VAT performance attributing such performance on the WHVAT framework.

Dube and Casale (2019) studied informal sector taxes and equity focusing on presumptive taxation in Zimbabwe. The study applied a mixed- methods approach. The investigation found that presumptive taxes presented flat inequity inside the casual area at equivalent dimensions of salary on account of the incomprehensibly extraordinary tax sums demanded over the casual part movement classes. As result, some sections of the businesses considered the presumptive taxes as being unreasonable which led to noncompliance among these businesses. The examination likewise discovered that obvious specific authorization of the guidelines exacerbated discernments among administrators that presumptive taxes were out of line and brought about low tax spirit. The investigation found that an absence of consciousness of how presumptive taxes contrasted and formal division taxes drove numerous in the casual part to trust that they were being dealt with unreasonably. Such discernments prompted low tax assurance and large amounts of resistance. The examination suggested the elevated accentuation on training or mindfulness cmpaigns.

Haji (2017) explored the presumptive tax system and its influence on the ways informal entrepreneurs behaved in Tanzania. The study applied independent but complementary research methods namely desk study, field research survey, data, policy analysis reports and consultative meetings. The study found that the relative contribution of presumptive tax to total had been low and insignificant. According to the study, many SME firms were still outside the TRA tax net, suggesting the existence of weaknesses in the existing presumptive tax system. The examination proposed a need to increase viable presumptive taxation change for SME business people through excusing turnover tax routine and affecting personal conduct standards of SMEs in Tanzania.

Cuccia (2013) investigated the financial matters of tax compliance in Malaysia. As indicated by study, the fundamental issue of inefficiency of the presumptive was that it had neglected to expand the tax base of the economy. In spite of anticipated outcomes, tax income had diminished throughout the years in Russia. It was additionally contended that presumptive tax had gotten some type of injustice in the tax framework. Unexpectedly, Mbaye (2012) contended that the presentation of presumptive taxes expanded consistence by 3%, 1.3%, and 0.7% in Benin, Burkina Faso and Senegal.

In the United States, Schepanski and Shearer (2015) noticed that the presentation of the presumptive tax routine inside the engine exchange division incredibly improved the tax head. Thomas (2013) in his investigation on presumptive gathering concentrating on a prospect hypothesis way to deal with expanding independent venture tax consistence in the US affirmed that the compelling usage of presumptive tax can improve income age and accumulation. As per Thomas, presumptive taxes improved productivity by forcing zero minimal tax rates on better than expected income in this manner expanding consistence among SMEs. His discoveries uncovered that since presumptive tax was determined dependent on a normal dimension of income for a specific industry, SMEs would endeavor to outperform that cutoff so as to have a bit of leeway.

Nyangau (2017) investigated the effect of withholding value added tax on tax compliance in Kenya. The study employed an explanatory study design and focused on taxpayers in Kenya as categorized by KRA as Large Tax Payers (LTO) and Medium and Small Taxpayers (MST). Data was compiled for a period spanning 7 years from the year 2011 to 2017. The study found that there was significance improvement in tax compliance after the enforcement of withholding VAT tax policies in Kenya. The study found that the VAT remitted by the

MST/DR was not significantly different before and after enforcement of withholding VAT tax in the country. However, the findings showed that VAT remitted by the LTO was significantly different before and after enforcement of withholding VAT tax in the country. In addition, the findings of the study reveal that Total VAT remitted was significantly different before and after enforcement of withholding VAT tax in the country. The study also found that total VAT by MST, LTO and all categories of tax payers had a strong positive relationship.

Vossler and McKee (2015) inspected the conduct impacts of tax withholding on tax compliance and the suggestions for data activities. The examination connected a confined field explore. The investigation found that tax underreporting was expanding in the dimension of expected just as unforeseen tax under-withholding, yet was to a great extent invariant to the dimension of tax over-withholding and surprising abatements in risk. Subsequently, data programs or different promptings that persuaded taxpayers to take part in over-withholding were probably going to advance compliance. As indicated by the investigation, helping taxpayers to remember the anguish with respect to making a tax installment or the "protection" managed by arranged reserve funds may be compelling in such manner. Further, since unforeseen increments in tax obligation had been exhibited to build avoidance, reminding taxpayers mid-year to make withholding changes in light of these unexpected occasions may be productive. The examination underlined punishments for under-withholding and highlights vulnerability at the season of the withholding choice noticing this would probably propel some to move to an over-withholding position.

2.4 Summary of Research Gaps

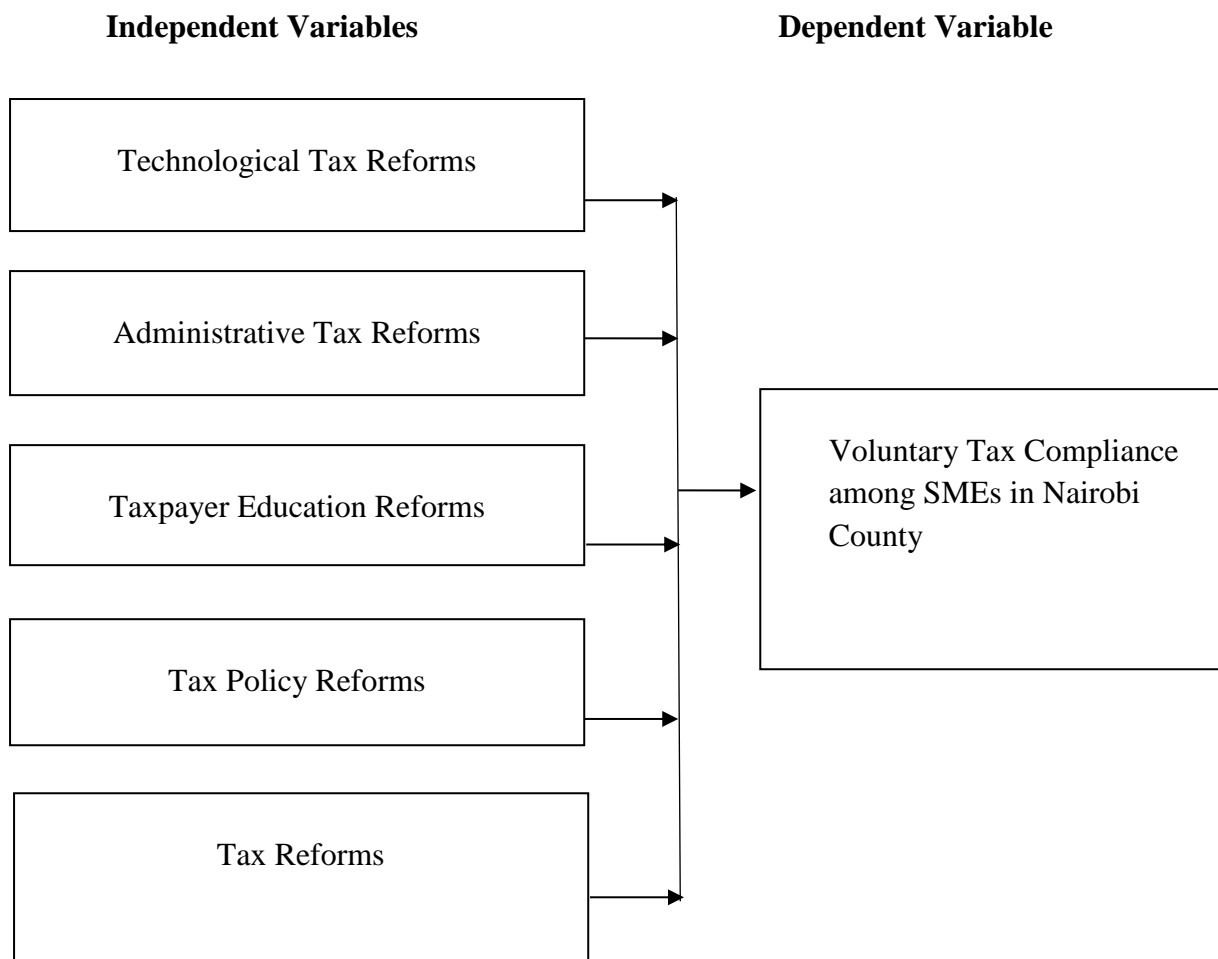
The review of existing literature revealed a number of knowledge gaps. The review clearly showed that the aspect of voluntary tax compliance among SMEs in Kenya in relation to various tax reforms within the tax system had not been explored and that most studies focused on tax compliance in general, for instance, Malonza (2016), Livoi (2017) and Gitaru (2017). The review also showed that studies showing the link between some of the major tax reforms such as presumptive tax which replaced turnover tax, reintroduction of withholding tax, setting up of customer care centers at Huduma Centre, implementation of KRA M-Service platform as well as the requirement of tax clearance certificate among others were missing. The review showed that most of the studies touching on presumptive tax for instance had been carried in other nations such as Zimbabwe, Tanzania and United States. These studies included that of Dube and Casale (2019), Haji (2017), Cuccia (2013) and Schepanski and Shearer (2015). The

review also showed that even though Nyangau (2017) investigated the effect of withholding value added tax on tax compliance in Kenya, the study was based on generalizations and did not reveal the ways in which this withholding VAT influenced tax compliance.

The review also showed the existence of mixed findings. The study by Munyoro (2017) for instance found that iTAX system had a positive effect on tax compliance which contradicted the findings of Livoi (2017) who found that iTAX system had no significant effect on tax compliance among SMEs. Furthermore, the study by Gitaru (2017) found that taxpayer education and tax services reforms positively related to tax compliance among SMEs while Wadesango, Mwandambira, Mhaka, and Wadesango (2018) found that enhancing tax knowledge as a reform on its own without reforms to address the high tax rates and corruption would not positively impact on tax compliance behaviour among SMEs. Hence, this study was crucial in addressing the research problem and bridging the existing knowledge gaps.

2.5 Conceptual Framework

The conceptual framework for this study had been designed to show the relationship between tax reforms and voluntary tax compliance among small and medium enterprises in Nairobi County. In this study, the independent variables were technological tax reforms, administrative tax reforms, taxpayer education reforms and tax policy reforms. The dependent variable was the voluntary tax compliance among SMEs in Nairobi County.



Source: Author (2018)

Figure 2.1: Conceptual Framework

2.5.1 Operationalization of Study Variables

This subsection shows how the researcher measured tax reforms and voluntary tax compliance among SMEs in Nairobi County.

Table 2.1: Operationalization of Variables

Type of Variable	Variable	Operational Definition	Measurement indicator	Measurement
Dependent Variable	Voluntary Tax Compliance	<ul style="list-style-type: none"> ◆ This refers to the ability of SMEs to fulfil all tax commitments as determined by the law uninhibitedly and totally without being compelled to. It is the opportune filling and announcing of required expense data, the right self-appraisal of assessments owed, and the convenient installment of those duties without implementation activity.. 	<ul style="list-style-type: none"> ◆ Timely payment of taxes without enforcement action. ◆ Tax registration without enforcement action. ◆ Tax filing without enforcement action. ◆ Correct reporting of income without enforcement action. 	<p>Five point Likert scale</p> <p>1-Strongly Disagree</p> <p>2-Disagree</p> <p>3-Somewhat Agree</p> <p>4-Agree</p> <p>5-Strongly Agree</p>
Independent Variables	Technological tax reforms	<ul style="list-style-type: none"> ◆ These are changes within the tax system that allow tax payers to meet their tax obligations electronically 	<ul style="list-style-type: none"> ◆ I-Tax System ◆ KRA M-Service 	<p>Five point Likert scale</p> <p>1-Strongly Disagree</p> <p>2-Disagree</p> <p>3-Somewhat Agree</p> <p>4-Agree</p> <p>5-Strongly Agree</p>
	Administrative tax reforms	These are changes that support day-to-	<ul style="list-style-type: none"> ◆ Decentralization of PIN registration to self and cyber cafes 	Five point Likert scale

		day management of revenue administration covering changes in systems, structures, management, leadership and organizational processes that enable a tax agency to meet its core mandate.	<ul style="list-style-type: none"> ◆ Customer care centers at Huduma centers and mobile centers ◆ KRA 24-hour call centers ◆ Requirement of tax compliance certificate in transacting or acquiring some services from government 	<p>1-Strongly Disagree</p> <p>2-Disagree</p> <p>3-Somewhat Agree</p> <p>4-Agree</p> <p>5-Strongly Agree</p>
	Taxpayer education reforms	These are changes with the tax system that seek to impart knowledge to tax payers as regards tax laws and compliance; changing their attitude towards taxation and increasing tax collection through voluntary compliance.	<ul style="list-style-type: none"> ◆ Tax clinics ◆ Sensitization/outreach campaigns through print and electronic media ◆ Tax summits ◆ Taxpayer education services division 	<p>Five point Likert scale</p> <p>1-Strongly Disagree</p> <p>2-Disagree</p> <p>3-Somewhat Agree</p> <p>4-Agree</p> <p>5-Strongly Agree</p>
	Tax policy reforms	These are the procedures of changing the way the charges are gathered or overseen by a government by rebuilding charge frameworks so that duties are progressively productive, less distortionary of market powers and simpler to direct..	<ul style="list-style-type: none"> ◆ Reintroduction of withholding VAT ◆ Presumptive tax to replace ToT 	<p>Five point Likert scale</p> <p>1-Strongly Disagree</p> <p>2-Disagree</p> <p>3-Somewhat Agree</p> <p>4-Agree</p> <p>5-Strongly Agree</p>

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research methods and procedures that will be utilized in undertaking this study. Under this section, the research philosophy and design, the target population, the sample size and sampling technique, the data collection instruments and procedures, pilot testing, data analysis and presentation as well as the ethical issues that observed in this study are discussed.

3.2 Research Philosophy

This study was anchored on the relativist paradigm which combines positivism and interpretivism. Positivism is whereby a researcher independently adopts a ‘scientific perspective when observing social behavior and focuses on objective truth and facts (Bryman & Bell 2007). Research, in this case, progresses through developed hypotheses (gotten from existing theory) and is tested and contributes to further development of the theory (Easterby-Smith, Thorpe, & Jackson 2008). Interpretivism/social constructivist views the world as socially constructed and subjective with the observer being a part of what is observed (Easterby-Smith et al., 2012). The focus, in this case, is said to be on meanings to aid in understanding events and situations are analyzed in totality in some cases using multiple methods to establish the various views of a given phenomenon.

Essentially, much of the research objectives can be achieved, if the researcher considers what Easterby-Smith et al. (2012) referred to as the researcher’s choice of epistemological stance, that is, a positivist. However, interpretivism paradigm was also used due to the generation of knowledge from subjective opinions derived from interviews. The research paradigm that assumed that knowledge was best derived from subjective opinions or qualitative responses of society members, known as interpretivism paradigm, was, therefore, invoked when dealing with interviews with the KRA officials. By combining positivism and interpretivism, the study yielded a compromise between the two - realism paradigm. The realism paradigm was best suited for this study.

3.3 Research Design

The research design adopted in a study refers to the general plan of action or strategy that a researcher wishes to use to guide them in obtaining the relevant information that is required to address the research problem and how they intend to tackle the challenges experienced during the study process. The study applied a mixed methods research design where both qualitative and quantitative methods were applied. This design was chosen since the researcher wished to use both qualitative and quantitative data and by so doing, it was expected that the researcher would be equipped with different kinds of information, detailed views of participants qualitatively and scores on instruments quantitatively and together they yielded results that were the same allowing them to carry out a comprehensive study of the research issue in line with Creswell (2014). According to Jagongo (2009), no single design exists in isolation and combining different designs in one study increases validity of the findings.

The quantitative approach entailed the use of a descriptive survey study design. The study sought to assess the effect of tax reforms on the voluntary tax compliance among SMEs in Nairobi County. The mentioned research design was therefore preferred since it would enable the researcher to give a detailed description of the study phenomena in its current state by taking raw data and tabulating it into a useable format. Hence, the researcher was able to describe the various tax reforms and how they had affected the prevalence of the voluntary tax compliance among SMEs in the county besides painting a true picture of the voluntary tax compliance among the SMEs in the study area in line with Kothari (2004). Furthermore, since the design allowed a researcher to identify, describe and analyze the causal relationship between the study variables (Mugenda & Mugenda, 2008), the researcher was able to find out the relationship that existed between the various tax reforms under study and voluntary tax compliance among SMEs in the county.

On the other hand, the use of a qualitative approach was resourceful in assisting the researcher to make sure that the study problem was not assessed through a single lens but rather diverse lenses which allowed the researcher to reveal and understand the multiple facets of the study phenomenon (Baxter & Jack 2008).

3.4 Target Population

The study targeted all the 8983 licensed small and medium enterprises within the Nairobi Central Business District Tax area in particular businesses operating along Biashara Street

(KRA iTax Data, 2019). The study also targeted the 27 KRA officials handling tax issues within the Nairobi CBD tax area (KRA Tax Department, 2019). The KRA officials had been targeted so as to enable the researcher to gather comprehensive information on the various tax reforms and provide statistics on the level of voluntary tax compliance among the SMEs in the county. Nairobi CBD provides a good setting for conducting this study since it had SMEs offering various services under diverse sectors and hence the researcher was able to compare the level of tax compliance in different sectors. The study also considered the tax reforms carried out for the period 2008 to 2018.

3.5 Sample Size and Sampling Technique

The study used purposive sampling applied in selecting Biashara Street as the region within the Nairobi Central Business District where the study was undertaken. Furthermore, given the large number of licensed SMEs within the Nairobi Central Business District Tax area along Biashara Street, the researcher could not involve all these businesses in the study. Hence, the formula developed by Yamane (1967) was used in determining the sample size for the SMEs. According to him, for a 95% confidence level and $p=0.05$, the size of the sample for this study was:

$$n = \frac{N}{1 + N(e^2)}$$

Where;

n =the sample size

N = the size of the population

e =the error of 5% points (level of precision)

Using the formula yields a sample size of

$$n = \frac{8983}{1 + 8983(0.05^2)}$$

$n=383$

The study sample was therefore 383 SMEs. The study applied different sampling techniques in selecting the study sample. The SMEs were selected using simple random sampling method so as to ensure that all the SMEs in the Nairobi's CBD had a chance to participate in the study

and also to reduce the sampling error and bias. On the other hand, purposive sampling was used to select 3 KRA officials handling tax issues within the Nairobi CBD region.

3.6 Data Collection Instruments

This study relied on primary data that was collected using questionnaires and key informant interview guides. The questionnaires were used to collect information from the SME owners or general manager while the KIIs were administered to the KRA officials. The questionnaires were semi-structured containing both open-ended and closed-ended questions. They were divided into a number of sections where Section A captured enterprises' profile, while sections B, C, D, E and F gathered information pertaining to technological tax reforms, administrative tax reforms, taxpayer education and tax services reforms, tax policy reforms and voluntary tax compliance among SMEs in Nairobi County respectively in line with the study objectives. Most of the questions were based on a Likert 5-point Scale (degree of agreement scale). The semi-structured interviews were administered to the KRA officials based at the county. The schedule for the interviews with KIIs was 30 minutes for each and the researcher conducted the interviews themselves.

3.7 Data Collection Procedures

In undertaking the study, the researcher first obtained approval and authorization to undertake the study from the relevant authorities namely the university management and SMEs' management. Then consent was sought from the study participants after issuing them with an introductory letter from the university and an advice form. The researcher contracted two trained assistants who assisted in administering the questionnaires. They administered the questionnaires through hand delivery and some through mail. They booked appointments with the participants to agree on the best time for administering the questionnaires.

3.8 Data Analysis and Presentation

This study applied both qualitative and quantitative approaches to data analysis. The qualitative data collected during the interviews was analysed using content analysis focusing mainly on thematic analysis. Thematic analysis emphasizes on pinpointing, examining and recording patterns or themes within data (Guest & Greg, 2012). The data collected from the interviews was therefore be recorded, transcribed, coded and grouped into themes according to the

research questions by the researcher. The data generated was presented as narratives and using direct quotes.

The quantitative data was analyzed with the help of the Statistical Software for Social Sciences (SPSS). The data was coded and imported in to the software after cross checking for error and blank spaces. Descriptive analysis, correlation analysis and regression analysis were undertaken. Descriptive analysis was used to give simple summaries of the basic characteristics of the sample. The descriptive statistics that were generated in this study consisted of the simple frequencies, percentages, means and standard deviation. Descriptive statistics for all the study variables was extracted. Analysis of the enterprises' profile was undertaken using frequencies and percentages.

Pearson correlation analysis was carried out to establish whether there was correlation between the tax reforms under study and voluntary tax compliance of the SMEs under study. After conducting a correlation analysis and finding out the correlation between the study variables, the next step was conducting a multiple regression analysis. In this, a model of relationship was hypothesized in the form $Y = \beta_0 + \beta_1 X_1 + \dots + \beta_j X_j + \varepsilon$ where β_0 and $\beta_1 \dots \beta_j$ were the model parameters and ε was a probabilistic error term that accounted for any variability in Y that could not be explained by the linear relationship with X. A multiple regression analysis was used to quantify the effect of the independent variables namely technological tax reforms, administrative tax reforms, taxpayer education reforms, tax policy reforms on the dependent variable which was voluntary tax compliance among SMEs in Nairobi County. The relationship between tax reforms and voluntary tax compliance among SMEs in Nairobi County was also hypothesized using individual regression equations relating each of the four tax reforms to voluntary tax compliance among these SMEs.

The regression equations are as shown;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

$$Y_1 = \beta_0 + \beta_1 X_1 + e$$

$$Y_2 = \beta_0 + \beta_2 X_2 + e$$

$$Y_3 = \beta_0 + \beta_3 X_3 + e$$

$$Y_4 = \beta_0 + \beta_4 X_4 + e$$

Where:

Y = is the dependent variable which is a measure of voluntary tax compliance among SMEs in Nairobi for all the tax reforms.

Y_1, Y_2, Y_3, Y_4 = dependent variables which are measures of voluntary tax compliance among SMEs in Nairobi County for each tax reform.

X_1 = Technological Tax Reforms

X_2 = Administrative Tax Reforms

X_3 = Taxpayer Education Reforms

X_4 = Tax Policy Reforms

β_1, β_2 and β_3, β_4 = Beta coefficients for which the researcher is trying to predict the value of Y .

β_0 = Constant Term

ε = Error term

The researcher used the F statistic and its associated p value in checking whether the regression model fitted the population and whether the independent variables were good predictors of tax compliance among small and medium enterprises in Nairobi County. In order to test whether the predictor variables had individual significant influence on voluntary tax compliance among small and medium enterprises in Nairobi County under study, the t statistics and their associated p values in the regression output were analyzed. The results were presented in form of tables and charts.

3.9 Research Quality

Research quality pertains to the validity and reliability of the findings and techniques that are used in a study. Reliability is the degree to which a research instrument consistently measures what it is intended to measure to provide stable and consistent results (Sekaran & Bougie, 2016). Validity is the accuracy and meaningfulness of inferences which are based on the research results (Mugenda & Mugenda, 2003).

3.9.1 Reliability of the Instruments

Cronbach's alpha was used to test the reliability of the questions asked under different variables. The coefficient was used to determine how well the items hanged together coherently. The questionnaires were subjected to an overall reliability analysis of internal consistency. The Cronbach alpha which was a coefficient of internal consistency was used to quantify the reliability of the questionnaire. Internal consistency quantified the associations that existed between the various items on the same test and whether various items that were suggested to measure the same general construct resulted to similar scores. As shown in Table 3.1, all the variables were found to be reliable since their Cronbach alphas were above 0.7 which was used as a cut-off of reliability for the study.

Table 3.1: Reliability Analysis

Variable	No of Items	Respondents	α =Alpha	Comment
Technological tax reforms	7	19	0.748	Reliable
Administrative tax reforms	5	19	0.737	Reliable
Tax payer education reforms	6	19	0.803	Reliable
Tax policy reforms	5	19	0.715	Reliable
Voluntary tax compliance	7	19	0.845	Reliable

3.9.2 Validity of the Instruments

In testing the validity of the questionnaire, both construct validity and content validity were checked. In the case of construct validity, the questionnaire was divided into a number of sections so that under each section, information regarding a specific objective was gathered besides ensuring that the same closely tied with the study's conceptual framework. In enhancing the content validity, the questionnaires were presented for thorough scrutiny by two tax consultants and also the study supervisor. They were invited to gauge the relevance and meaningfulness of the questionnaires after which their comments were integrated in adjusting the questionnaires. That way, the validity of the questionnaire was enriched.

In order to triangulate the responses from the key informants, their responses were compared with that from the survey that was conducted in order to check if both approaches yielded results that supported the study objectives or theory, so that the data was naturally more valid. In this study, validity was enhanced by ensuring careful documentation by the researcher and

the participants checking the data to ensure that what they said was written down and was not misrepresented. In addition, the validity was established by the project supervisor.

3.9.3 Pilot Testing

Pilot testing was conducted to pre-test the data collection instruments so that the researcher could eliminate ambiguity and improve their relevance to the study objectives. Usually, a pre-test should be carried out on 1 to 10% of the actual sample size (Mugenda & Mugenda, 2003). In this study, a pretest was undertaken on 5% of the sample population. Therefore, a pilot study involving 19 SMEs owners was undertaken. These SMEs were randomly selected. The feedback obtained from the pilot study data gathered was analyzed and used to make adjustments to the questionnaire besides equipping the researcher with crucial experience needed in collecting the data for the main study. The participants in the pilot study were not involved in the main study.

3.10 Ethical Considerations

In any research undertaken, there are important logistical and ethical considerations that the researcher must be aware of before starting the research as this helps the researcher to protect their integrity and also ensure honest results (Mugenda, 2003). In line with this, the researcher sought approval and authorization to carry out the study from the postgraduate department at the university and the SMEs' management. Upon getting the approval from the relevant authorities, the researcher sought the informed consent of the SME owners and KRA officials to take part in the study. The researcher ensured confidentiality at all times by using codes on the data instruments thus names of respondents/businesses were not written and anonymity of the identity of the respondents was safeguarded using numbers. Moreover, interviews were conducted in private locations to guarantee confidentiality. The researcher also ensured that the data collected was confined to academic purpose only and that the respondents participated voluntarily without coercion or bribery. They did not offer any inducements whatsoever to encourage participation in the study, they acknowledged authors and works cited and finally and above all, the researcher was open and honest in dealing with the respondents.

CHAPTER FOUR

DATA ANALYSIS, RESEARCH FINDINGS AND PRESENTATION

4.1 Introduction

This chapter presents the study findings and their interpretation based on the analysis of data collected. The findings are presented in figures and tables for the quantitative data while the responses from the interviews are presented in narrative form and direct quotes. The findings are arranged under themes that reflect the research objectives. Descriptive statistics were used in presenting a summary of the basic characteristics/profile of the SMEs under study. Descriptive statistics of each tax reform and voluntary tax compliance among the SMEs under the study are also presented. Correlation analysis was conducted to show the association between the tax reforms and voluntary tax compliance among the SMEs while regression analysis was used to show the individualized and combined effect of the tax reforms on voluntary tax compliance among the SMEs in Nairobi County, Kenya.

4.2 Response Rate

Response rate refers to the number of successful interviews and questionnaires completed and returned. This is expressed as a percentage of total target interviews and questionnaires issued. Kothari (2004) considered a response rate of 50% and above to be adequate for analysis and reporting. The results presented in Table 4.1 revealed that the response rate for this study was 281 (73.4%) based on questionnaires completed and returned and also recorded a 3 (100%) response rate of the key informant interviews involving the KRA officials handling tax issues within the Nairobi CBD tax area.

Table 4.1: Response Rate

Instrument	Response	Frequency	Percent
Questionnaires	Returned	281	73.4
	Unreturned	102	26.6
	Total	383	100.0
Interviews	Successful	3	100.0

4.3 SMEs' Profile

This section summarizes the information related to the SMEs' characteristics. The information sought included: the gender of the business owner, the period the business had been in existence, the main business activity, businesses' monthly turnover, and the number of employees in the SMEs.

4.3.1 Gender of the Business Owner (n=281)

The findings presented in Figure 4.1 show that slightly more than half of the business owners, 145 (51.6%) were male whereas 136 (48.8%) were female. These findings implied that a large number of the licensed SMEs in the Nairobi CBD area were owned by men. The findings are in line with the findings of the 2016 Micro, Small and Medium Establishments Basic Report which showed that generally, a large number of the licensed SMEs were owned by men while women owned most of the unlicensed businesses in Kenya.

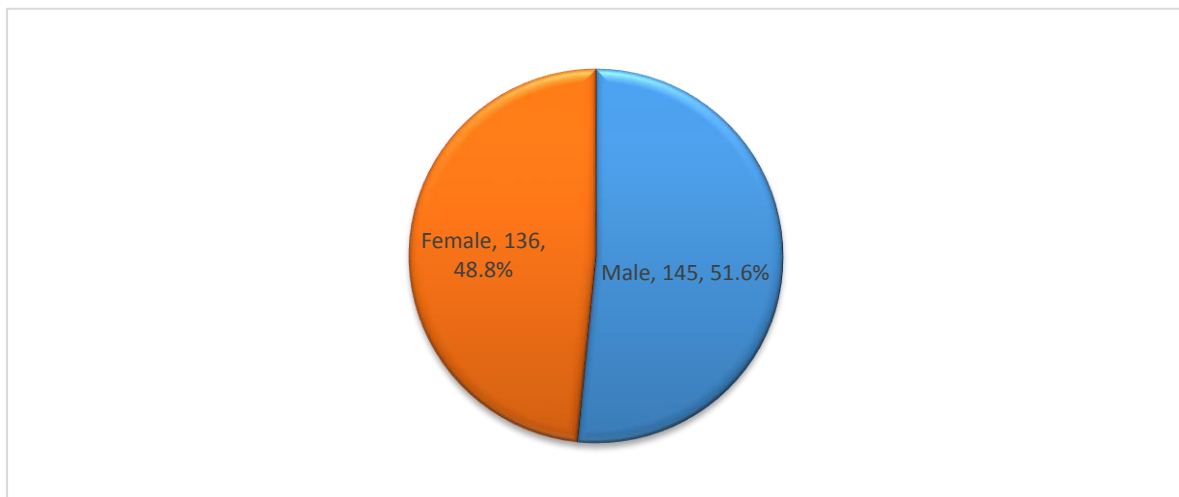


Figure 4.1: Gender of the Business Owner (n=281)

4.3.2 Period of Business Existence (n=281)

The period for which the businesses had been in existence was also examined and the results presented in Figure 4.2. The findings show that the majority of the businesses, 216 (76.9%) had been existence for 1 to 5 years. Given that a majority of the businesses had been in operation for quite some time, the respondents had rich information pertaining to issues of tax compliance within their businesses and hence could adequately provide the relevant information needed for the study. Zikmund (2005) recommends that research respondents

should possess the relevant experience relating to the issues that the researcher intends to study so as to be included in the research.

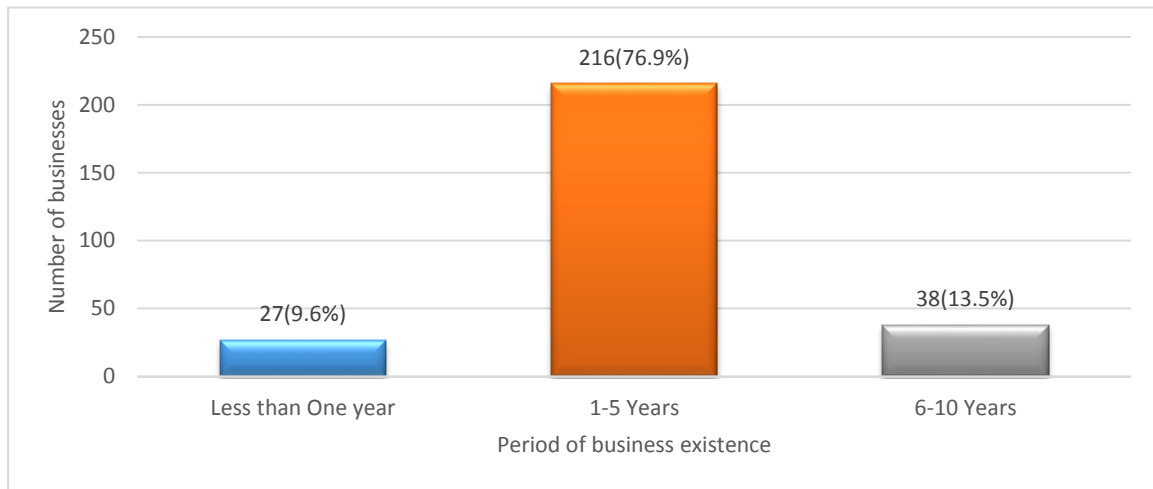


Figure 4.2: Period of Business Existence (n=281)

4.3.3 Main Business Activity (n=281)

The main business activities of the SMEs under study were also examined and the results presented in Figure 4.3. The findings reveal that 47 (16.7%) of the businesses were involved in selling food and household commodities, 84 (29.9%) were selling clothing items, 29 (10.3%) were involved in minor construction works while 10 (3.6%) of the businesses were involved in offering audit and advisory services respectively. The findings further show that 28 (10.0%) of the SMEs under study were involved in selling vehicle spare parts, 20 (7.1%) were involved in making general supplies while an equal number 9 (3.2%) were involved offering catering services, providing consultancy services as well as selling computers and phone accessories. An equal number of businesses, 18 (6.4%) were involved in transport services/cab services and providing resident rental services. The findings implied that the SMEs under study were involved in diverse businesses activities majorly in retail and services sectors.

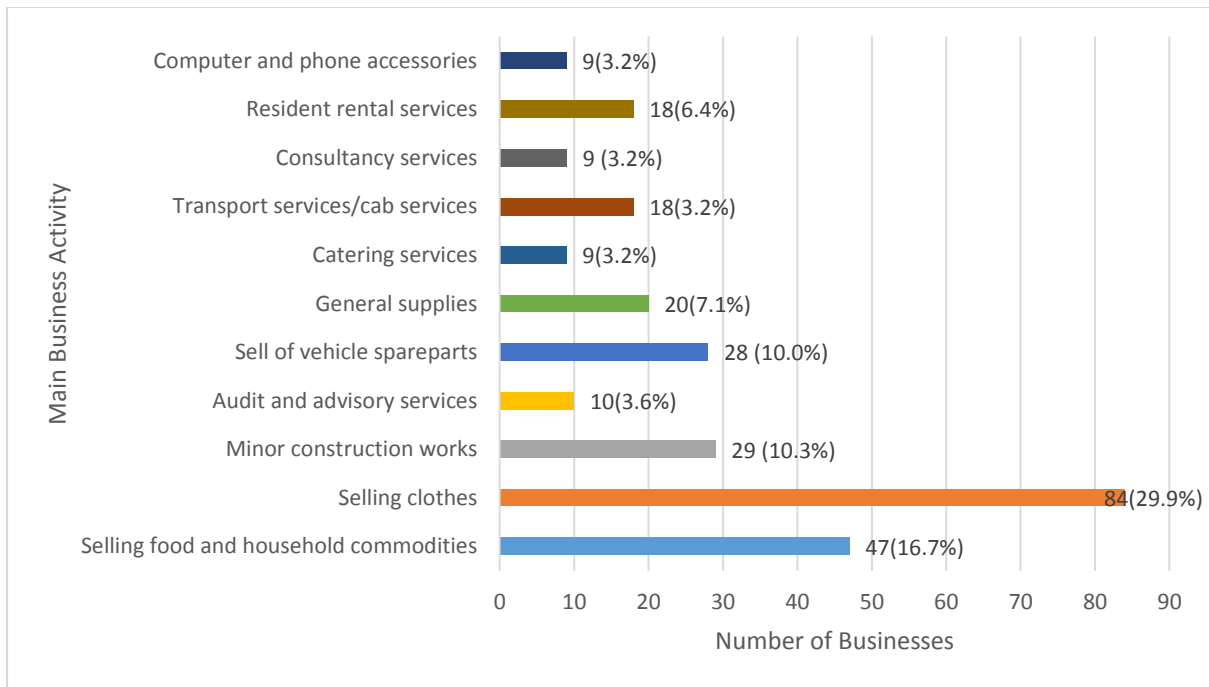


Figure 4.3: Main Business Activity (n=281)

4.3.4 Number of Employees (n=281)

The number of employees in the businesses under study was further examined and the findings are as outlined in Figure 4.4. The findings revealed that a majority of the businesses under study, 232 (82.6%), had employed between 10 and 20 individuals implying that most of them were small in nature.

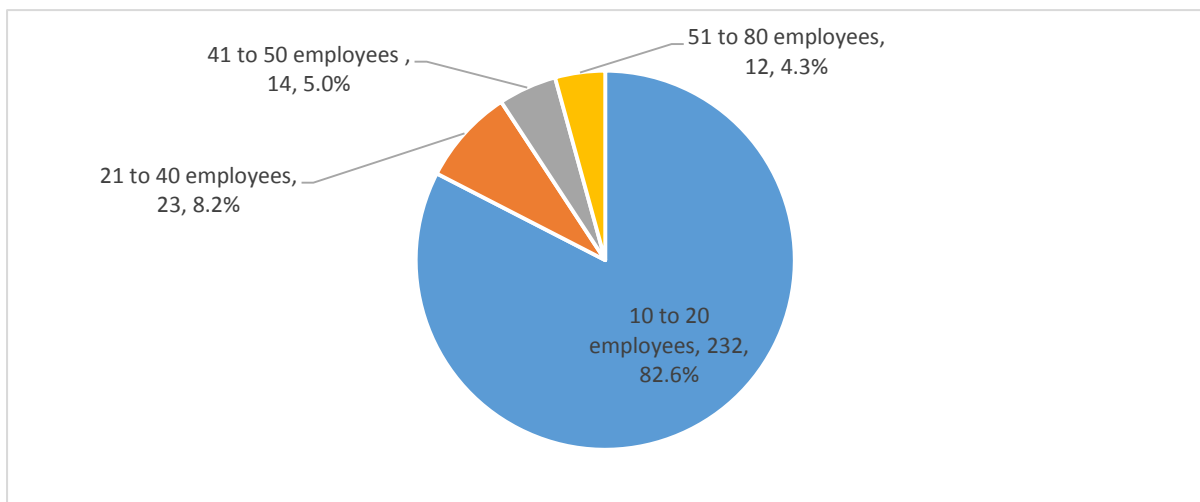


Figure 4.4: Number of Employees (n=281)

4.3.5 Annual Turnover of Businesses (n=281)

The respondents were asked to indicate the annual turnover for their business on average and the findings are as indicated in Figure 4.5. The findings showed that slightly more than half of the businesses under study, 152 (54.1%) had an annual turnover of Kshs. 500,000 to Kshs. 2,000,000, 83(30.6%) had an annual turnover of Kshs. 2,000,001 to Kshs. 3,500,000, 34 (12.1%) had an annual turnover of Kshs. 3,500,001 to Kshs. 5,000,000 while 12 (4.3%) of the businesses had an annual turnover of more than Kshs. 5,000,000.

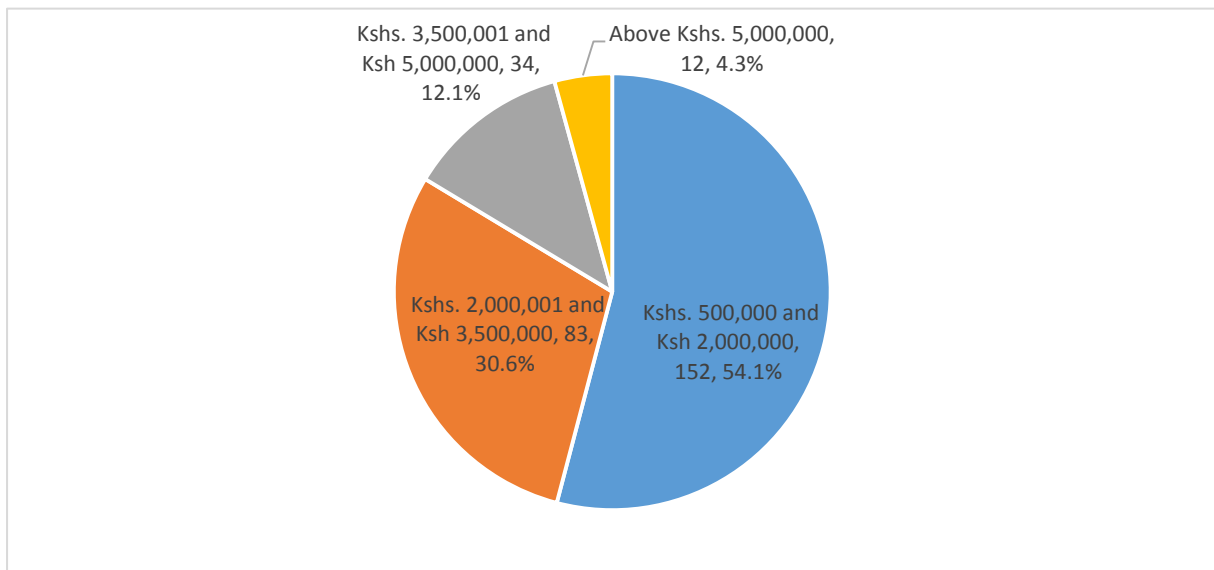


Figure 4.5: Annual Turnover of Businesses (n=281)

4.3 Technological Tax Reforms

The study sought to examine the effect of technological tax reforms on voluntary tax compliance among SMEs within Nairobi's CBD. To achieve this, the study participants were asked to respond to a number of questions related to technological tax reforms.

4.3.1 Embracement of the iTax System (n=281)

The study assessed whether the businesses under study had embraced the iTax system and the findings are as shown in Figure 4.6. It was found that a majority of the businesses, 206 (73.3%) had embraced the KRA iTax system. The study findings implied that despite the recognizable popularity of the iTax system in the nation, not all SMEs had embraced the system in meeting their tax obligations.

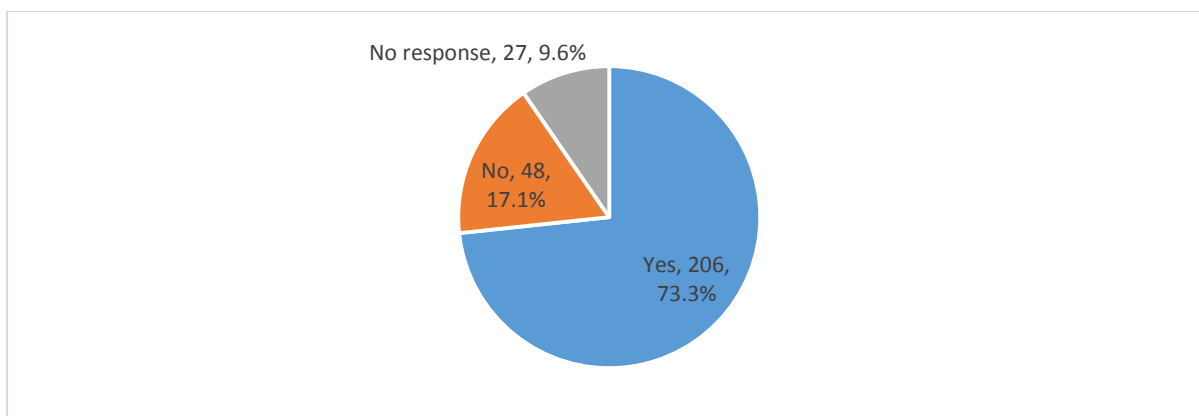


Figure 4.6: Embracement of iTax System (n=281)

4.3.2 Tax Obligations met on the iTax System (n=206)

The study also explored the tax obligations met on iTax for the businesses which had embraced the system. The findings as outlined in Table 4.2 shows that 104 (50.10%) of the businesses were able to file and remit their VAT, 76 (36.90%) filed and remitted PAYE taxes, 29 (14.10%) and 72 (35.00%) filed and remitted their income taxes for individual and company respectively while 9 (4.37%) indicated that they were able to file and remit their presumptive taxes. The findings implied that the SMEs under study were able to meet varied tax obligations within the iTax system.

Table 4.2: Tax Obligations met on iTax System (n=206)

Tax Obligations met on iTax System	Count	Percentage
VAT	104	50.10
PAYE	76	36.90
Income tax-individual	29	14.10
Income tax-company	72	35.00
Presumptive tax	9	4.37

N/B: Multiple Responses

4.3.3 Awareness of the KRA M-Service Platform (n=281)

The awareness of the KRA M-Service platform, that is, KRA MPesa paybill among the businesses under study was examined. The findings as presented in Figure 4.7 revealed that a majority of the businesses, 225 (80.1%), were aware of the KRA MPesa paybill. These findings implied that there was high awareness of the KRA MPesa paybill among SMEs under study.

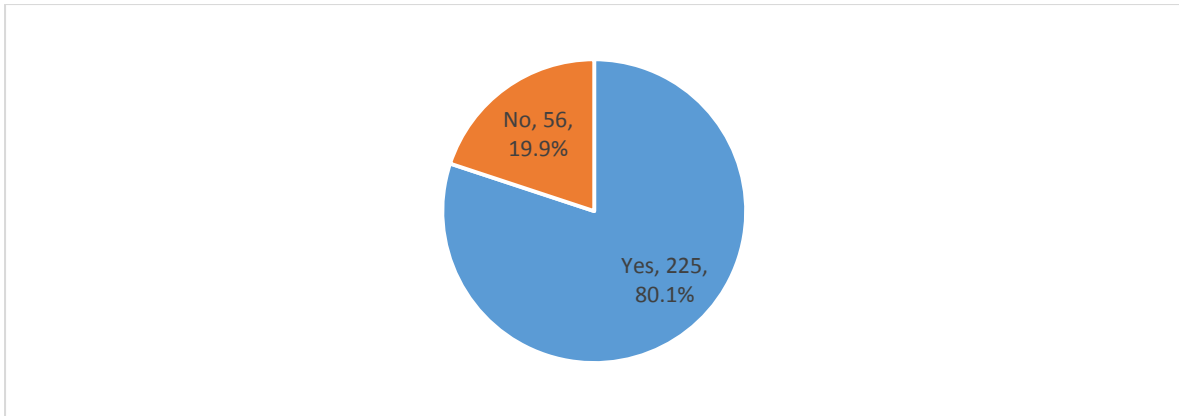


Figure 4.7: Awareness of the KRA M-Service Platform (n=281)

4.3.4 Extent of Use of KRA M-Service Platform in Making Tax Remittances (n=225)

Those who were aware of the KRA M-Service platform were asked to state the extent to which they used the platform in making their business tax remittances. The findings are presented in Figure 4.8. The study found that a majority of the businesses, 151 (67.1%), used this platform to a small extent when remitting their taxes. These findings implied that high awareness levels of the KRA M-Service platform did not translate to enhanced utilization of the platform by SMEs in remitting their taxes. The findings also raised concerns over the effectiveness of the platform in assisting the SMEs in remitting their taxes.

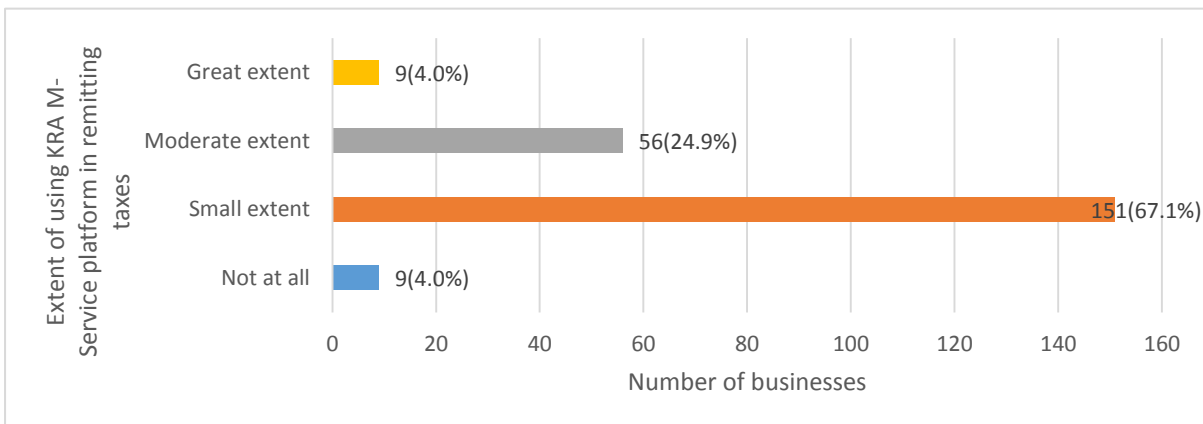


Figure 4.8: Extent of Use of KRA M-Service Platform (n=225)

4.3.5 Use of iTax System and KRA M-Service and Change in Voluntary Tax Compliance (n=281)

The study assessed whether there was a change in the enterprises' capacity to meet their tax obligations freely or voluntarily by being able to use the iTax system and the KRA M-Service

platform. The study found that a majority of the respondents, 217 (77.2%), noted a change majorly as a result of the iTax system as shown in Figure 4.9.

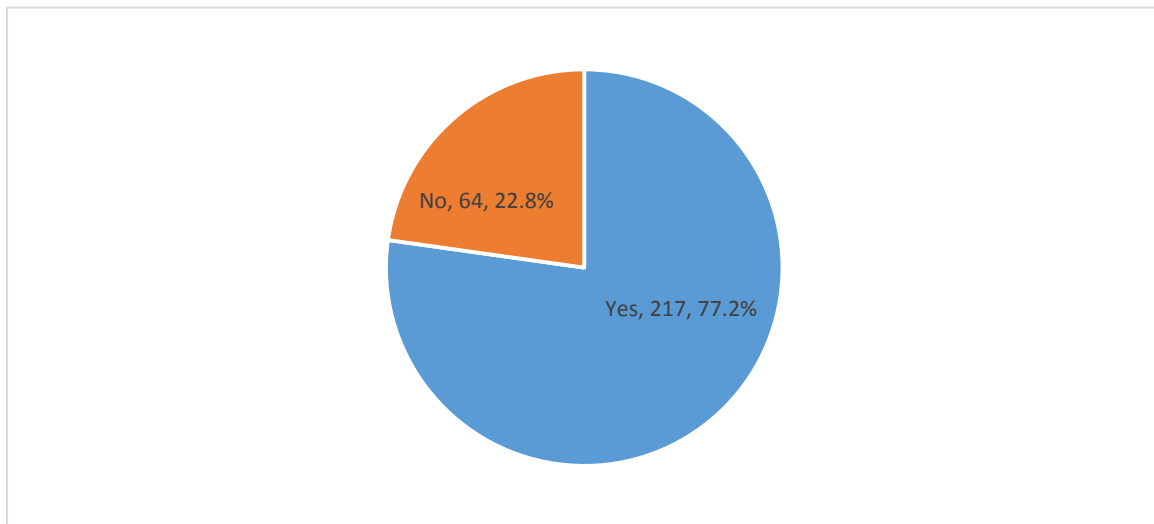


Figure 4.9: Use of iTax System and KRA M-Service and Change in Voluntary Tax Compliance (n=281)

4.3.6 Ways the iTax System and KRA M-Service Platform Changed the Enterprises' Voluntary Tax Compliance (n=217)

The results pertaining to the ways in which the use of the iTax system and the KRA M-Service Platform changed the SMEs' capacity to meet their tax obligations voluntarily are presented in Table 4.3. It was found that 10(4.60%) of the businesses reported reduced cost in meeting tax obligations, 46(21.20%) reported convenience and time saving in meeting tax obligations while, 57(26.30%) and 56(25.80%) of the businesses reported efficiency and ease in meeting their tax obligations respectively. 10(4.60%) of the businesses reported the timely generation of estimates as helping them to comply with their tax obligations on time. The findings further showed that 9(4.15%) of the businesses indicated that with the use of iTax and the KRA MPesa paybill, it had become easier to make tax payments in instalments regularly, 38(17.50%) reported flexibility in meeting tax obligations while 18(8.29%) of the businesses indicated that they had experienced less strain in meeting their business tax obligations. All these resulted to the changes in the capacity of these businesses to voluntarily comply with their tax obligations.

Table 4.3: Ways the iTax System and KRA M-Service Platform Changed the Enterprises' Voluntary Tax Compliance (n=217)

Reason for Change	Count	Percentage
Reduced cost of meeting tax obligations	10	4.60
Convenience and time saving in meeting tax obligations	46	21.20
Efficiency in meeting tax obligations	57	26.30
Ease in meeting tax obligations	56	25.80
Generating estimates for timely compliance	10	4.60
Made it easier to make payment in instalments regularly	9	4.15
Flexibility in meeting tax obligations	38	17.50
Less strain for the business in meeting tax obligations	18	8.29

N/B: Multiple Responses

These findings are in line with the views of the KRA officials during the interview sessions. According to one of the officials,

“Not all are registered in the KRA data base (PIN) but there has been a big increase in compliance in regards to registration since the onset of iTax. ITax has also helped them to file their returns easily and make payments through the bank and through MPesa easily.”

They further noted that,

“Most of them have outsourced the filing of returns to tax agents who also say business filing of returns has been made easy by using iTax.”

Another official also pointed out that;

“Technological advancements have greatly enhanced voluntary compliance. KRA's online tax management system (iTax) has made it easier and more convenient for small businesses to voluntarily comply in return filing, payments and online ledger management.”

The other official in agreement with the views given by the other officials noted that;

“iTax being one of the technological reforms has simplified and provided more convenience on taxpayers' obligations e.g. returns filing. This has significantly improved the level of tax compliance by SMEs.”

They also added that,

“M-service has made it easier for tax payers who are not paying very huge taxes to pay through the MPesa platform and also when the due date falls on a Sunday and the banks are closed.”

4.3.7 Descriptive Analysis of Technological Tax Reform (n=281)

The respondents were further asked to express their degree of agreement or disagreement with a number of statements on technological tax reforms in relation to voluntary tax compliance in their businesses by rating their views on a Likert scale ranging from 1=strongly disagree to 5=strongly agree. The mean results were interpreted using a scale interval where a mean value of (5.000-4.500) was an indication of strongly agree, (4.499-3.500) indicated agree, (3.499-2.500) indicated neutral, (2.499-1.500) indicated disagree and (1.499-1.000) indicated strongly disagree. The findings are displayed in Table 4.4.

As shown in Table 4.4, on average, the respondents agreed that filing their enterprises' tax returns through iTax had reduced the enterprises' money and time related costs considerably as shown by (M=3.762, SD=0.998). The findings also revealed that on average, the agreed that their enterprises have had minimal direct contact with the tax officers since the adoption of iTax system given (M=3.840, SD=0.736). It was further established that on average, the respondents agreed that as enterprises, they did not need to be reminded to file all their periodic tax returns given (M=3.544, SD=1.256).

The findings reveal that on average, the respondents agreed that using iTax payments had made it easy for their businesses to make tax remittances accurately, conveniently and on time (M=4.100, SD=0.848). On the other hand, the findings showed that on average, the respondents had a neutral view regarding whether their businesses had conveniently used the iTax registration system to make amendments of the enterprises' tax details whenever necessary as supported by (M=3.363, SD=1.176). Similarly, the findings showed that on average, the respondents had a neutral opinion on whether as enterprises, they had been able to access specific information needed from KRA simply through text messages as shown by (M=3.068, SD=1.276). The findings also showed that on average, the respondents had a neutral opinion on whether remitting the enterprises' taxes through mobile payments had affected the transparency of their business transactions given (M=3.121, SD=1.069).

The findings revealed that the highest mean of responses was associated with the statement ‘Using iTax payments has made it easy for us to make tax remittances accurately, conveniently and on time’ ($M=4.100$, $SD=0.848$) while the lowest mean was associated with the statement “As an enterprise, we have been able to access specific information needed from KRA simply through text messages” ($M=3.068$, $SD=1.276$). The average mean of responses of 3.543 and standard deviation of 1.051 implied that on average, the respondents were agreeing with the statements presented on technological tax reforms.

Table 4.4: Descriptive Analysis of Technological Tax Reform (n=281)

Technological Tax Reform	Mean	SD
Filing tax returns through iTax has considerably reduced the enterprise’s money and time related costs.	3.762	0.998
Enterprise has had minimal direct contact with the tax officers since the adoption of iTax system.	3.840	0.736
Enterprise does not need to be reminded to file all its periodic tax returns.	3.544	1.256
Using iTax payments has made it easy for enterprise to make tax remittances accurately, conveniently and on time.	4.100	0.848
Enterprise has conveniently used the iTax registration system to make amendments of the its tax details whenever necessary.	3.363	1.176
Enterprise has been able to access specific information needed from KRA simply through text messages.	3.068	1.276
Remitting taxes through mobile payments has affected the transparency of enterprise transactions.	3.121	1.069
Average	3.543	1.051

4.4 Administrative Tax Reforms

The study also sought to find out the effect of administrative tax reforms on voluntary tax compliance among SMEs within Nairobi’s CBD. To achieve this, the study participants were required to respond to a number of questions related to administrative tax reforms. First, the study assessed how various initiatives by KRA assisted the businesses under study in voluntarily complying with tax obligations and the findings are as outlined in the sections below.

4.4.1 Decentralization of PIN Registration to Self and Cyber Cafes (n=281)

The study sought to find out whether decentralization of PIN registration to self and cyber cafes had assisted in promoting voluntary tax compliance among the businesses under study. The

study findings as presented in Figure 4.10 shows that a majority of the respondents, 253 (90.04%), indicated that decentralization of PIN registration to self and cyber cafes had assisted their businesses in voluntarily complying with tax obligations.

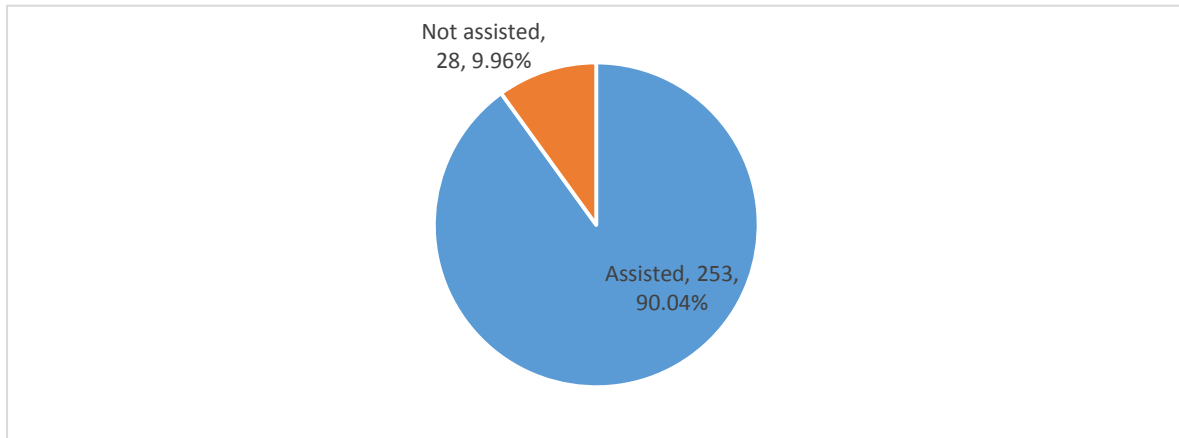


Figure 4.10: Decentralization of PIN Registration to Self and Cyber Cafes (n=281)

The study further examined how decentralization of PIN registration to self and cyber cafes assisted in voluntary tax compliance. The findings are presented in Table 4.5. It was found that this initiative by KRA led to ease and time saving in PIN registration as stated by 75 (29.60%) and 65 (25.70%) of the respondents respectively, 48 (19.00%) of the respondents reported increased accessibility of PIN registration services, 27 (10.70%) noted that this initiative led to reduced costs of visiting KRA offices while 39 (15.40%) and 27 (10.70%) of the respondents noted that decentralization of PIN registration to self and cyber cafes resulted to convenience and efficiency in PIN registration respectively. All these enhanced voluntary tax compliances among the majority of the SMEs under study.

Those who did not find the initiative as helpful in assisting them to voluntarily comply with their tax obligations decried of delays in applying for company PINs, costly charges and increased errors when using the cyber cafes as well as the erroneous tax heads highlighted by the cyber cafes that did not apply to their businesses.

Table 4.5: How Decentralization of PIN Registration to Self and Cyber Cafes assisted in Voluntary Tax Compliance (n=253)

Decentralization of PIN Registration to Self and Cyber Cafes	Count	Percentage
Ease in PIN registration	75	29.60
Time saving in PIN registration	65	25.70
Accessibility of PIN registration services	48	19.00
Reduced cost of visiting KRA offices	27	10.70
Convenience in PIN registration	39	15.40
Efficiency in PIN registration	27	10.70

N/B: Multiple Responses

4.4.2 Customer Care Centers at Huduma Centers and Mobile Centers (n=281)

The study also examined how KRA customer care centers at Huduma Centers and mobile centers had assisted the SMEs under study to voluntarily comply with their tax obligations. The results are outlined in Table 4.6. It was found that 29 (10.32%) of the respondents stated that these centers enhanced their efficiency in meeting their tax obligations, 38 (13.52%) pointed out that the centers enhanced their timeliness in complying with tax obligations while 61 (21.71%) indicated that the centers were helpful in enhancing the timeliness in addressing their concerns/problems as taxpayers. The findings also showed that 38 (13.52%) of the respondents stated that the centers made it easy to access tax services, 28 (9.96%) indicated that the centers enabled them to get the relevant tax information easily while 45 (16.01%) of the respondents found the centers helpful by enhancing the accessibility of tax services. However, 56 (19.90%) of the respondents noted that they had not visited these centers and hence their voluntary tax compliance had not been affected by the setting up of these centers.

Table 4.6: Customer Care Centers at Huduma Centers and Mobile Centers (n=281)

Customer Care Centers at Huduma Centers and Mobile Centers	Count	Percentage
Never visited them	56	19.90
Enhanced efficiency in meeting tax obligations	29	10.32
Timeliness in complying with tax obligations	38	13.52
Timeliness in addressing taxpayer concerns/problems	61	21.71
Ease in accessing tax services	38	13.52
Convenience in accessing tax services	28	9.96
Getting the relevant tax information	9	3.20
Accessibility of tax services	45	16.01

N/B: Multiple Responses

4.4.3 KRA Call Centers (n=281)

The manner in which the KRA call centers assisted the SMEs under study to voluntarily comply with their tax obligations was also assessed. The findings as presented in Table 4.7 showed that 19 (6.76%) of the respondents noted that these centers had enhanced efficiency in submitting tax returns, 64 (22.78%) noted that the centers had enhanced the timeliness in getting tax related assistance while 10 (3.56%) stated that the centers had increased the accessibility of KRA tax services. The study also found that 9 (3.20%) of the respondents had experienced convenience in getting tax related assistance with the setting up of these centers while 46 (16.37%) had their tax problems promptly solved. 49 (17.44%) stated that they had not interacted with the centers while 56(19.92%) of the respondents did not find the KRA call centers helpful in assisting their businesses to freely comply with their tax obligations. This was linked to unreliable or misinformation at times and failure to reach call center personnel at times.

Table 4.7: KRA Call Centers (n=281)

KRA Call Centers	Count	Percentage
Not interacted with them	49	17.44
Efficiency in submitting tax returns	19	6.76
Timeliness in getting tax related assistance	64	22.78
Accessibility of KRA services	10	3.56
Convenience in getting tax related assistance	9	3.20
Prompt problem solving/getting tax related assistance	46	16.37
Not assisted	56	19.92

N/B: Multiple Responses

4.4.4 Requirement of Tax Clearance Certificate in Transacting with Government (n=281)

The assessment of the effectiveness of the requirement of tax clearance certificate when transacting with government in assisting the SMEs under study to voluntarily comply with their tax obligations revealed that slightly more than half of the respondents, 159 (56.58%) found this requirement very helpful in enhancing their voluntary tax compliance. They noted that this requirement enforced tax compliance and discipline since it made it hard for SMEs to evade taxes. This is so since they needed to be compliant in order to get the certificate and avoid missing out on business opportunities. 55 (19.57%) of the respondents noted that their businesses had not transacted with the government while 67 (23.84%) said that the requirement did not assist their businesses to freely comply with tax obligations since they considered the

certificate an unnecessary burden and that it had become tedious to obtain the certificate presently. These findings are outlined in Table 4.8.

Table 4.8: Requirement of Tax Clearance Certificate in Transacting with Government (n=281)

Requirement of Tax Clearance Certificate in Transacting with Government	Count	Percentage
Never transacted with the government	55	19.57
Enforcing compliance and tax discipline	159	56.58
Not assisted	67	23.84

During the interviews, it emerged that the setting up of more tax offices and satellite stations to enhance access to tax support and facilitation as well as KRA’s rebranding reinvention to focus more on support and facilitation were the other administrative tax reforms undertaken to enhance voluntary tax compliance among businesses.

4.4.5 Descriptive Analysis on Administrative Tax Reforms (n=281)

The respondents were further asked to express their degree of agreement or disagreement with a number of statements on administrative tax reforms in relation to voluntary tax compliance in their businesses. The findings are displayed in Table 4.9. The study found that on average, the respondents had a neutral view regarding whether their businesses had been able to easily and quickly access the needed tax services provided by customer care centers placed at Huduma centers and mobile centers given (M=3.395, SD=1.332). Similarly, the respondents had a neutral view regarding whether they had all their businesses’ queries quickly responded to by the KRA call centers especially during emergencies at all time on average as shown by (M=2.762, SD=1.154).

The findings further showed that on average, the respondents agreed that as businesses, they no longer feared approaching the KRA PIN issuing system by themselves (M=3.925, SD=0.778). The findings revealed that on average, the respondents had a neutral view regarding whether their enterprises had been able to conveniently seek assistance in handling issues related to their PIN registration from cybercafé operators within their reach whenever necessary as supported by (M=3.459, SD=1.111). Similarly, the respondents had a neutral view regarding whether requiring tax clearance certificates in transacting and accessing services in

other government departments had made tax evasion hard for them as businesses on average given ($M=3.381$, $SD=1.083$).

The study findings also show that the highest mean of responses was associated with the statement ‘As a business, we no longer fear approaching the KRA PIN issuing system by ourselves’ ($M=3.925$, $SD=0.778$) while the lowest mean was associated with the statement “We have had all our queries quickly responded to by the KRA call centers especially during emergencies at all time” ($M=2.762$, $SD=1.154$). The average mean of responses of 3.384 and a standard deviation of 1.092 shows that on average, the respondents had a neutral view on the statements on administrative tax reforms and their responses were varying as supported by the standard deviation.

Table 4.9: Descriptive Analysis on Administrative Tax Reforms (n=281)

Administrative Tax Reforms	Mean	SD
Business has been able to easily and quickly access the needed tax services provided by customer care centers placed at Huduma centers and mobile centers.	3.395	1.332
Enterprise has had all its queries quickly responded to by the KRA call centers especially during emergencies at all time.	2.762	1.154
Enterprise no longer fears approaching the KRA PIN issuing system by itself.	3.925	0.778
Enterprise has been able to conveniently seek assistance in handling issues related to its PIN registration from cybercafé operators within its reach whenever necessary.	3.459	1.111
Requiring tax clearance certificates in transacting and accessing services in other government departments has made tax evasion hard for businesses.	3.381	1.083
Average	3.384	1.092

4.5 Tax Payer Education and Tax Services Reforms

The study also examined the effect of tax payer education and tax services reforms on voluntary tax compliance among SMEs in Nairobi’s CBD region. The respondents were presented with a number of questions relating to tax payer education and tax services reforms in relation to voluntary tax compliance among these businesses.

4.5.1 Awareness of KRA Tax Payer Education Programs (n=281)

The study investigated the awareness of the tax payer education programs conducted by KRA among the SMEs under study and the findings are provided in Figure 4.11. The study findings revealed that majority of the respondents, 216 (76.90%), indicated that they were aware of at least one tax payer education program carried out by KRA.

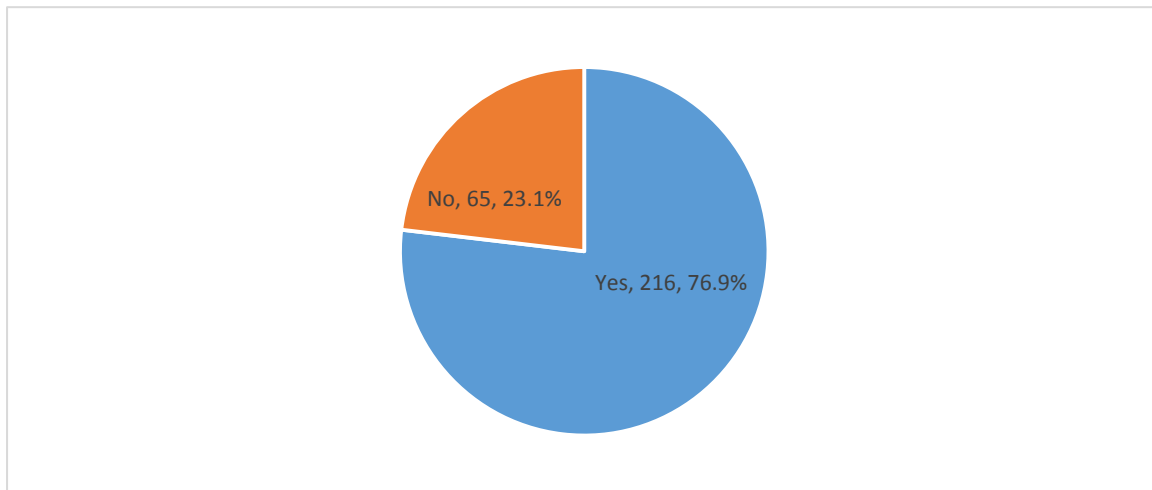


Figure 4.11: Awareness of KRA Tax Payer Education Programs (n=281)

4.5.2 Attendance of Any Tax Payer Education Programs (n=216)

Those who were aware of any tax payer education program conducted by KRA were asked to indicate whether they had attended any of these programs. The results are presented in Figure 4.12. It was found that only 104 (48.1%) of those aware of the programs attended at least one of the education programs. These findings implied that awareness or knowledge of the tax payer education programs carried out by KRA did not always lead to their attendance among SMEs.

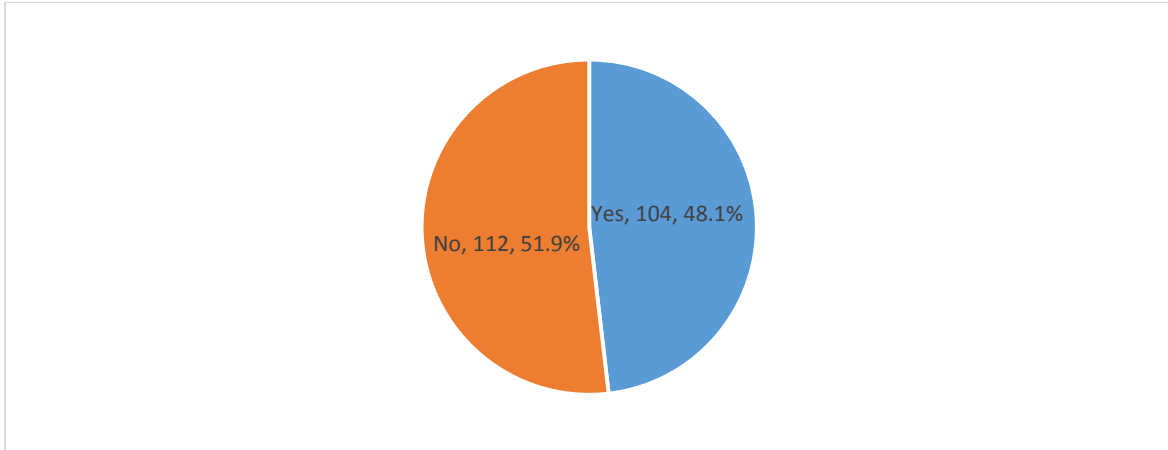


Figure 4.12: Attendance of Any Tax Payer Education Programs (n=216)

4.5.3 Areas of Tax Payer Education Trainings (n=104)

Those who indicated that they had attended at least one education program carried out by KRA were asked to indicate they areas they had been trained on. The findings as displayed in Figure 4.13 shows that a majority of the respondents, 94 (90.4%), indicated that they had received training on filing tax returns through the iTax system while 10 (9.60%) had been trained on records keeping.

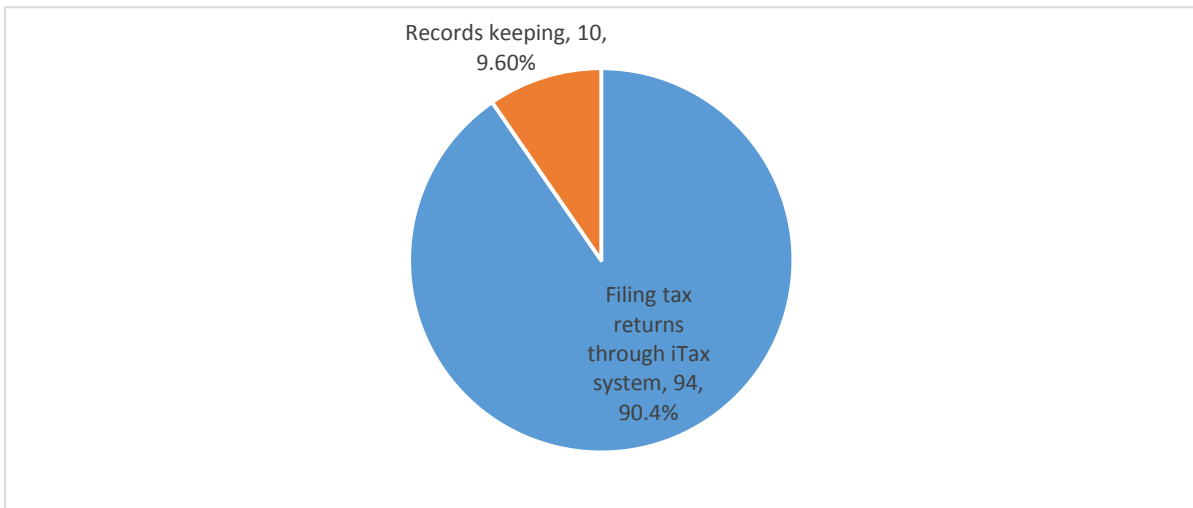


Figure 4.13: Areas of Tax Payer Education Trainings (n=104)

4.5.4 Effectiveness of the Modes of Taxpayer Education (n=281)

The study further examined the extent to which various modes of taxpayer education used by KRA were effective in educating SMEs as tax payers. The findings are outlined in Table 4.10.

The findings showed that on average, the respondents found stakeholder sensitization (seminars, workshops and cultural events) as a mode of taxpayer education effective to a moderate extent as shown by (M=1.925, SD=0.929). The study also found that tax clinics were found to be effective to a moderate extent on average by the respondents as a mode of taxpayer education as supported by (M=1.733, SD=0.813). Print media taxpayer education (Newspapers, magazines, prospects, pamphlets, booklets), electronic taxpayer education (Advertising and internet news, iTax), radio/television and taxpayer summits (taxpayer engagement platforms) were also found to be effective to a moderate extent as modes of tax payer education on average as shown by (M=2.100, SD=0.977), (M=2.295, SD=1.099), (M=1.833, SD=0.818) and (M=1.722, SD=0.854) respectively.

Table 4.10: Effectiveness of the Modes of Taxpayer Education (n=281)

Mode of Taxpayer Education	Mean	Standard Deviation
Stakeholder sensitization (Seminars, workshops and cultural events)	1.925	0.929
Tax clinics	1.733	0.813
Print media taxpayer education (Newspapers, magazines, prospects, pamphlets, booklets)	2.100	0.977
Electronic taxpayer education (Advertising and internet news, iTax,)	2.295	1.099
Radio/ Television	1.833	0.818
Taxpayer summits (taxpayer engagement platforms)	1.722	0.854

4.5.5 Ways Tax Payer Education affected Voluntary Tax Compliance among Business

The study sought to find out the various ways in which tax payer education reforms affected the willingness of the businesses under study to voluntarily comply with their tax obligations. It was found out that these reforms increased the businesses' knowledge of their tax obligations and also enhanced their easy understanding of how and why to file and remit their taxes.

During the interviews, one KRA official pointed out that;

“Taxpayer education reforms have helped the SMEs overcome various challenges they had in relation to taxation thereby increasing their level of voluntary compliance.”

Another official noted that;

“Through tax clinics, the SME owners who are able to grasp the iTax system have become more compliant and those who are not able to understand it due to their education background have employed tax agents who come for the clinics in order to better represent their clients.”

The other official on the other hand asserted that;

“Taxpayer education has enhanced compliance by providing taxpayers with critical information on taxability, due dates, how to file and comply including penalties for non-compliance.”

4.5.6 Descriptive Analysis of Tax Payer Education Reforms (n=281)

The respondents also stated their level of agreement/disagreement with a number of statements relating to tax payer education reforms in relation to voluntary tax compliance in their businesses. The findings are outlined in Table 4.11. The study findings revealed that on average, the respondents agreed that as enterprises, they had been made aware that there was a helpdesk at KRA offices and Huduma Centres that they could approach to provide assistance when they encountered tax compliance difficulties given (M=3.754, SD=1.115). The findings also showed that on average, the respondents had a neutral view regarding whether as enterprises, they had been trained by KRA on how to comply with tax laws as shown by (M=2.758, SD=1.180).

It was further established that on average, the respondents had a neutral view regarding whether as enterprises, they had received the necessary tax compliance technical support from KRA officers (M=3.292, SD=0.975). Similarly, the respondents on average had a neutral view regarding whether taxpayer sensitization had played a vital role in changing their attitude towards paying taxes as an enterprise given (M=3.260, SD=1.162). On the contrary, the respondents, on average disagreed that their enterprises’ staff had attended KRA tax summits where enterprises had a chance to air their grievances and make suggestions on service improvement (M=2.441, SD=1.002). It was found that on average, the respondents had a neutral view pertaining to whether the current publicized prosecution efforts and the consequences/penalties of non-compliance had made tax evasion hard for their businesses given (M=3.203, SD=1.051).

The findings showed that the highest mean of responses was associated with the statement ‘As an enterprise, we have been made aware that there is a helpdesk at KRA offices and Huduma Centre that we can approach to provide assistance when we encounter tax compliance difficulties’ ($M=3.754$, $SD=1.115$) while the lowest mean was associated with the statement “Our staff have attended KRA tax summits where enterprises have a chance to air their grievances and make suggestions on service improvement” ($M=2.441$, $SD=1.002$). The average mean of responses of 3.118 and a standard deviation of 1.081 shows that on average, the respondents had a neutral view on the statements on tax payer education reforms and their responses were varying as supported by the standard deviation.

Table 4.11: Descriptive Analysis of Tax Payer Education and Tax Services Reforms (n=281)

Taxpayer Education Reforms	Mean	SD
Enterprise has been made aware that there is a helpdesk at KRA offices and Huduma Centre that it can approach to get assistance when it encounters tax compliance difficulties.	3.754	1.115
Enterprise has been trained by KRA on how to comply with tax laws.	2.758	1.180
Enterprise has received the necessary tax compliance technical support from KRA officers.	3.292	0.975
Taxpayer sensitization has played a vital role in changing enterprise’s attitude towards paying taxes.	3.260	1.162
Enterprise’s staff have attended KRA tax summits where enterprises have a chance to air their grievances and make suggestions on service improvement.	2.441	1.002
Current publicized prosecution efforts and the consequences/penalties of non-compliance have made tax evasion hard for the enterprise.	3.203	1.051
Average	3.118	1.081

4.6 Tax Policy Reforms

Last but not least, the study sought to determine the effect of tax policy reforms on voluntary tax compliance among SMEs in Nairobi’s CBD area. The respondents were presented with a number of questions related to tax policy reforms in relation to voluntary tax compliance.

4.6.1 Reintroduction of Withholding VAT (n=281)

The respondents were asked to state how the reintroduction of withholding VAT had affected their enterprises’ willingness to voluntarily comply with their tax obligations. The findings are

outlined in Table 4.12. It was found that 104 (37.00%) of the respondents indicated that their businesses had no VAT obligations, 29 (10.32%) noted that this tax policy reform had an insignificant effect on their willingness to freely comply with tax obligations as it interfered with their cash flow while 75 (26.69%) indicated that the reform had increased their willingness to voluntarily comply since it reduced the amount of taxes they paid and also since there was no way out of it. 73 (25.98%) of the respondents did not provide any comment.

Table 4.12: Reintroduction of Withholding VAT (n=281)

Reintroduction of withholding VAT	Count	Percentage
No VAT obligations	104	37.00
Insignificant effect	29	10.32
Increased willingness	75	26.69
No comment	73	25.98
Total	281	100.00

During the interviews, one of the KRA officials highlighted that;

“Withholding VAT has enhanced voluntary compliance in that suppliers are obliged to file with the knowledge that KRA already has advance knowledge of their trading activities. Some briefcase suppliers who never used to account for and remit WHT are now been forced to do so because of WHT agents who withhold and the amounts are reflected in the suppliers’ ledger prompting them to file their returns.”

4.6.2 Presumptive Tax to Replace Turnover Tax (n=281)

The study also assessed the effect of presumptive tax to replace turnover tax on the willingness to voluntarily comply with tax obligations among the SMEs under study. The findings as presented in Table 4.13 showed that 120 (42.70%) of the respondents stated that this tax policy reform did not affect their businesses, 87 (30.96%) stated that this reform had increased their willingness to voluntarily comply since it was easier, simpler and manageable to comply with and hard to hide while 28 (9.96%) indicated that this reform had insignificant effect on their willingness to freely comply with tax obligations since they considered it as a punishment for small businesses and also found complying with it time consuming. 46 (16.37%) of the respondents did not provide any comment on this.

Table 4.13: Presumptive tax to replace Turnover Tax (n=281)

Presumptive tax to replace Turnover Tax	Count	Percentage
Doesn't affect my business	120	42.70
Increased willingness to comply	87	30.96
Insignificant effect	28	9.96
No comment	46	16.37
Total	281	100.00

The views of the KRA officials during the interviews were contrasting. One of this stated that;

“Since presumptive tax is more favourable and cheaper on the side of the taxpayer compared to ToT, the level of voluntary compliance has significantly increased.”

On the contrary, another official argued that;

“The uptake of replacement of presumptive tax has not been as good as projected. KRA has not received enough support from Nairobi County who were to ensure that they do not license anyone who had not paid presumptive tax. The performance of this tax head has also been made difficult due to corruption in Nairobi county whereby traders operate without licenses and play hide and seek with city council askaris.”

The views of these officials were supported by the sentiments of the other official who indicated that;

“Presumptive tax though simplified, it has had no a huge impact on compliance since enforcement controls are weak.”

4.6.3 Descriptive Analysis on Tax Policy Reforms (n=281)

The respondents also stated their level of agreement/disagreement with a number of statements relating to tax policy reforms in relation to voluntary tax compliance in their businesses. The findings are outlined in Table 4.14. The study found that on average, the respondents had a neutral opinion pertaining to whether as businesses, they found the current presumptive tax system fair to them given (M=3.132, SD=1.063). The study also found that on average, the respondents had a neutral view as to whether as businesses, they found the current presumptive tax system quite affordable and reasonable as shown by (M=3.160, SD=0.906).

It was further shown that on average, the respondents had a neutral view pertaining to whether as businesses, they had adequate knowledge and understanding of the presumptive tax system in place as shown by ($M=2.897$, $SD=0.941$). The findings revealed that on average, the respondents had a neutral view regarding whether as businesses, they found the current withholding VAT system fair given ($M=3.153$, $SD=1.039$). It was also found that on average, the respondents had a neutral view regarding whether as businesses, they found the current withholding VAT framework efficient and satisfactory given ($M=3.057$, $SD=1.034$).

The findings showed that the highest mean of responses was associated with the statement ‘As a business, we find the current presumptive tax system quite affordable and reasonable’ ($M=3.160$, $SD=0.906$) while the lowest mean was associated with the statement “As a business, we have adequate knowledge and understanding of the presumptive tax system in place” ($M=2.897$, $SD=0.941$). The average mean of responses of 3.080 and a standard deviation of 0.997 shows that on average, the respondents had a neutral view on the statements on tax policy reforms and their responses were varying as supported by the standard deviation.

Table 4.14: Descriptive Analysis on Tax Policy Reforms (n=281)

Tax Policy Reforms	Mean	SD
Enterprise finds the current presumptive tax system fair to us.	3.132	1.063
Enterprise finds the current presumptive tax system quite affordable and reasonable.	3.160	0.906
Enterprise has adequate knowledge and understanding of the presumptive tax system in place.	2.897	0.941
Enterprise finds the current withholding VAT system fair.	3.153	1.039
Enterprise finds the current withholding VAT framework efficient and satisfactory.	3.057	1.034
Average	3.080	0.997

4.7 Voluntary Tax Compliance (n=281)

The study sought to determine the level of voluntary tax compliance among small and medium enterprises in Nairobi County focusing on businesses with the CBD area. The findings are presented in Table 4.15. The results show that on average, the respondents agreed that as businesses, they filed and paid their taxes as a matter of course given ($M=3.964$, $SD=0.948$). The findings also showed that on average, the respondents had a neutral view regarding whether as businesses, they would still pay their taxes on time if there were no controls

(M=2.964, SD=1.426). It was further established that on average, the respondents had a neutral opinion regarding whether as businesses, they did not feel that they were forced to pay taxes given (M=2.790, SD=1.358). The findings showed that on average, the respondents had a neutral view regarding whether as businesses, they had always declared actual income received from all sources to the tax authority honestly without being forced (M=3.228, SD=1.236).

It was further established that on average, the respondents had a neutral opinion regarding whether as businesses, they did not follow the stipulated rules and regulation because of the fear of the risks of being checked as shown by (M=2.587, SD=1.228). Similarly, the respondents on average had a neutral opinion regarding whether as businesses, they had registered as taxpayers for all the taxes they qualified for without being forced to given (M=3.295, SD=1.249). On the other hand, the respondents on average agreed that as businesses, they were always keeping up to date records and books of accounts without being forced to given (M=3.737, SD=0.927).

The findings revealed that the highest mean of responses was associated with the statement ‘As a business, we file and pay our taxes as a matter of course’ (M=3.964, SD=0.948) while the lowest mean was associated with the statement “As a business, we do not follow the stipulated rules and regulation because of the fear of the risks of being checked” (M=2.587, SD=1.228). The average mean of responses of 3.224 and a standard deviation of 1.196 shows that on average, the respondents had a neutral view on the statements on tax policy reforms and their responses were varying as supported by the standard deviation.

Table 4.15: Voluntary Tax Compliance

Voluntary Tax Compliance	Mean	SD
Enterprise files and pays its taxes as a matter of course.	3.964	0.948
Enterprise would still pay its taxes on time if there were no controls.	2.964	1.426
Enterprise does not feel that it is forced to pay taxes.	2.790	1.358
Enterprise has always declared actual income received from all sources to the tax authority honestly without being forced to.	3.228	1.236
Enterprise does not follow the stipulated tax rules and regulations because of the fear of the risks of being checked.	2.587	1.228
Enterprise has registered as taxpayer for all the taxes it qualifies for without being forced to.	3.295	1.249
Enterprise is always keeping up to date records and books of accounts without being forced to.	3.737	0.927
Average	3.224	1.196

4.8 Correlation Analysis (n=281)

Correlation analysis was carried out in order to association between the tax reforms under study and voluntary tax compliance among SMEs in Nairobi County, Kenya. The direction, strength and significance of the correlation between technological tax reforms, administrative tax reforms, tax payer education reforms, tax policy reforms and voluntary tax compliance among the businesses was tested. Pearson correlation coefficient was used in this study and it ranges from -1 to +1. The strength of these coefficients were interpreted using the criteria outlined by Sedgwick (2012) as follows: .00 to .19 is very weak, .20 to .39 is weak, .40 to .59 is moderate, .60 to .79 is strong while .80 to 1.0 is very strong. The tests were conducted at the 95% confidence level or the 0.05 significance level. The rule of the thumb was that a calculated p value greater than the critical p value which was set at 0.05 for this study implied that the correlation between the variables was insignificant and vice versa.

The findings as presented in Table 4.16 revealed that technological tax reforms had a strong positive, and significant correlation with voluntary tax compliance among SMEs in Nairobi County ($r=0.755$, $p=0.000$, $p<0.05$). The findings also showed that administrative tax reforms were positively and significantly correlated with voluntary tax compliance among the SMEs under study and this correlation was also strong as supported by ($r=0.611$, $p=0.000$, $p<0.05$). Similarly, the correlation between tax payer education reforms and voluntary tax compliance among SMEs in Nairobi County was also found to be strong, positive and significant given ($r=0.700$, $p=0.000$, $p<0.05$). The study further established that tax policy reforms had a strong, positive and significant correlation with voluntary tax compliance among SMEs in Nairobi County as shown by ($r=0.626$, $p=0.000$, $p<0.05$). These findings implied that tax reforms were positively and significantly associated with voluntary tax compliance among SMEs in Nairobi County, Kenya.

Table 4.16: Correlation Matrix (n=281)

		Voluntary Tax Compliance	Technological Tax Reforms	Administrative Tax Reforms	Taxpayer Education Reforms	Tax Policy Reforms
Voluntary Tax Compliance	Pearson Correlation	1				
	Sig. (2-tailed) N	281				
Technological Tax Reforms	Pearson Correlation	.755**	1			
	Sig. (2-tailed) N	0.000 281	281			
Administrative Tax Reforms	Pearson Correlation	.611**	.586**	1		
	Sig. (2-tailed) N	0.000 281	0.000 281	281		
Taxpayer Education Reforms	Pearson Correlation	.700**	.671**	.524**	1	
	Sig. (2-tailed) N	0.000 281	0.000 281	0.000 281	281	
Tax Policy Reforms	Pearson Correlation	.626**	.559**	.384**	.563**	1
	Sig. (2-tailed) N	0.000 281	0.000 281	0.000 281	0.000 281	281

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

4.9 Regression Analysis (n=281)

The researcher carried out regression analysis in order to quantify the effect of each tax reform on voluntary tax compliance among SMEs in Nairobi County, Kenya. The individual effect of each of the tax reforms under study was assessed by conducting bivariate regression analyses. Finding out the isolated effect of each tax reform on voluntary tax compliance among SMEs under study was crucial given the fact that the effectiveness of each tax reform in influencing voluntary tax compliance behaviour among businesses was quite different. A multivariate regression analysis was on the other hand conducted to show the combined effect of the four tax reforms on voluntary tax compliance among the businesses under study.

4.9.1 Technological Tax Reforms and Voluntary Tax Compliance among SMEs (n=281)

The study sought to examine the effect of technological tax reforms on voluntary tax compliance among SMEs in Nairobi County, Kenya. Having obtained the β coefficient

associated with technological tax reforms as shown in Table 4.17, the following model was fitted to show the relationship between technological tax reforms and voluntary tax compliance among the SMEs under study.

$$\text{Voluntary Tax Compliance} = 0.577 + 0.787 \text{ Technological Tax Reforms}$$

Where;

0.577 = is the value of voluntary tax compliance among SMEs under study when the value of technological tax reforms is zero

0.787= is the regression coefficient which implies that for every unit increase in technological tax reforms, the voluntary tax compliance among SMEs under study is expected to increase by 0.787 units holding all other factors constant.

The first output in Table 4.17 provides the model summary results. The results show that technological tax reforms explained considerable variance or changes in voluntary tax compliance among SMEs in Nairobi County. This is portrayed by the coefficient of determination (R square) of 0.570 which implied that 57.0% of the changes in voluntary tax compliance among SMEs under study were explained by the level of technological tax reforms. The results also implied that 43.0% of the changes in voluntary tax compliance under study was attributed to other factors not considered in the model.

The ANOVA results were also evaluated in order to determine the significance of the model showing the relationship between technological tax reforms and voluntary tax compliance among SMEs under study. The significance of the F statistic was assessed using the P values where if the significance associated with the F value was less than 0.05, the model was considered significant, otherwise insignificant. The findings as outlined in the second output under Table 4.17 indicate that the model used to link these variables was significant given ($F=370.49, p=0.000, p<0.05$).

The third output shows the regression estimate that enabled the researcher to determine if technological tax reforms had significant effect on the voluntary tax compliance among SMEs in Nairobi County by observing their t statistics and their associated p values. For a variable to be significant in explaining a dependent variable, the associated p value should be less than the critical p value which is set at 0.05 in this study. The study findings showed that

technological tax reforms had a positive and significant effect on voluntary tax compliance among the SMEs under study given ($\beta = 0.787, t = 19.248, p = .000$). These findings implied that a unit increase in technological tax reforms resulted to increased voluntary tax compliance among these SMEs by 0.787 units holding all other factors constant.

Table 4.17: Technological Tax Reforms and Voluntary Tax Compliance (n=281)

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.755a	0.570	0.569	0.57057		
a Predictors: (Constant), Technological Tax Reforms						
ANOVAa						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	120.613	1	120.613	370.49	.000b
	Residual	90.828	279	0.326		
	Total	211.441	280			
a Dependent Variable: Voluntary Tax Compliance						
b Predictors: (Constant), Technological Tax Reforms						
Coefficientsa						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.577	0.141		4.081	0.000
	Technological Tax Reforms	0.787	0.041	0.755	19.248	0.000
a Dependent Variable: Voluntary Tax Compliance						

4.9.2 Administrative Tax Reforms and Voluntary Tax Compliance (n=281)

The study also sought to determine the effect of administrative tax reforms on voluntary tax compliance among SMEs in Nairobi County, Kenya. The following model was fitted to show the relationship between administrative tax reforms and voluntary tax compliance among these businesses after obtaining the β coefficient.

$$\text{Voluntary Tax Compliance} = 0.776 + 0.734 \text{ Administrative Tax Reforms}$$

Where;

0.776 = is the value of voluntary tax compliance among SMEs under study when the value of administrative tax reforms is zero

0.734= is the regression coefficient which implies that for every unit increase in administrative tax reforms, the voluntary tax compliance among SMEs under study is expected to increase by 0.734 units holding all other factors constant.

The model summary results in the first output under Table 4.18 reveals administrative tax reforms also explained significant variation in the voluntary tax compliance among SMEs in Nairobi County as supported by the R Square of 0.373. These results implied that 37.3% of the changes in voluntary tax compliance among the businesses under study were attributed to administrative tax reforms implemented. The rest of the changes, 62.7% were attributable to other factors not considered in this model.

The ANOVA results on the other hand as presented in the second output revealed that the model used to show the relationship between administrative tax reforms and voluntary tax compliance among SMEs in Nairobi County was significant given ($F=165.821$, $p=0.000$, $p<0.05$). The findings also implied that administrative tax reforms were a good predictor of voluntary tax compliance among businesses under study.

The regression coefficient results presented in the third output reveals that administrative tax reforms positively and significantly affected voluntary tax compliance among SMEs in Nairobi County ($\beta=0.734$, $t=12.877$, $p = .000$, $p<0.05$). This meant that a unit increase in administrative tax reforms would result to increased tax compliance among the businesses by 0.734 units holding all other factors constant.

Table 4.18: Administrative Tax Reforms and Voluntary Tax Compliance (n=281)

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.611a	0.373	0.371	0.68945		
a Predictors: (Constant), Administrative Tax Reforms						
ANOVAa						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	78.821	1	78.821	165.821	.000b
	Residual	132.62	279	0.475		
	Total	211.441	280			
a Dependent Variable: Voluntary Tax Compliance						
b Predictors: (Constant), Administrative Tax Reforms						
Coefficientsa						
Model		Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	Sig.
1	(Constant)	0.776	0.194		3.993	0.000
	Administrative Tax Reforms	0.734	0.057	0.611	12.877	0.000
a Dependent Variable: Voluntary Tax Compliance						

4.9.3 Tax Payer Education Reforms and Voluntary Tax Compliance (n=281)

The individualized effect of tax payer education reforms on the voluntary tax compliance among SMEs in Nairobi County was also assessed and the following model fitted to show the link between the two variables having obtained the β coefficient.

$$\text{Voluntary Tax Compliance} = 0.744 + 0.784 \text{ Tax Payer Education Reforms}$$

Where;

0.744 = is the value of voluntary tax compliance among SMEs under study when the value of tax payer education reforms is zero

0.784= is the regression coefficient which implies that for every unit increase in tax payer education reforms, the voluntary tax compliance among SMEs under study is expected to increase by 0.784 units holding all other factors constant.

The model summary results presented in Table 4.19 revealed that tax payer education reforms also explained significant variance in the voluntary tax compliance of the SMEs under study as shown by the R square of 0.490. These results meant 49.0% of the changes in voluntary tax compliance among the businesses under study was attributed to tax payer education reforms while the rest of the changes, 51.0% was attributed to factors not included in this model.

The ANOVA results in the second output showed that the model used to show the relationship between tax payer education reforms and voluntary tax compliance among SMEs in Nairobi County was also significant given ($F=268.280$, $p=0.000$, $p<0.05$). The findings also implied that tax payer education reforms were a good predictor of voluntary tax compliance among businesses under study.

The regression estimate reveal that tax payer education reforms had positive and significant effect on the voluntary tax compliance of the SMEs in Nairobi County given ($\beta = 0.784$, $t = 16.379$, $p = .000$, $p<0.05$). These findings implied that a unit increase in tax payer education reforms would result to increased voluntary tax compliance among SMEs under study.

Table 4.19: Tax Payer Education Reforms and Voluntary Tax Compliance (n=281)

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.700a	0.490	0.488	0.62157		
a Predictors: (Constant), Tax Payer Education Reforms						
ANOVAa						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	103.65	1	103.65	268.280	.000b
	Residual	107.791	279	0.386		
	Total	211.441	280			
a Dependent Variable: Voluntary Tax Compliance						
b Predictors: (Constant), Tax Payer Education Reforms						
Coefficientsa						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.744	0.156		4.782	0.000
	Tax payer education reforms	0.784	0.048	0.7	16.379	0.000
a Dependent Variable: Voluntary Tax Compliance						

4.9.4 Tax Policy Reforms and Voluntary Tax Compliance (n=281)

The individualized effect of tax policy reforms on voluntary tax compliance among SMEs in Nairobi County was further examined and the results are as presented in Table 4.19. The following model was fitted to show the link between tax policy reforms and voluntary tax compliance among the businesses under study.

$$\text{Voluntary Tax Compliance} = 0.510 + 0.875 \text{ Tax Payer Education Reforms}$$

Where;

0.510= is the value of voluntary tax compliance among SMEs under study when the value of tax policy reforms is zero

0.875 = is the regression coefficient which implies that for every unit increase in tax policy reforms, the voluntary tax compliance among SMEs under study is expected to increase by 0.875 units holding all other factors constant.

The model summary results revealed that 41.4% of the changes in voluntary tax compliance among SMEs under study was attributed to tax policy reforms. The rest of changes, 58.6%, were attributed to factors not considered in the study. This was supported by the R square of 0.414. The results implied that significant variation in the voluntary tax compliance among the SMEs under study was as a result of changes in tax policy reforms.

The ANOVA results as presented in the second output showed that the model used to show the relationship between tax policy reforms and voluntary tax compliance among the SMEs under study was significant as supported by (F=192.952, p=0.000, p<0.05). The findings implied that tax policy reforms were a good predictor of voluntary tax compliance among SMEs

The regression coefficient as outlined in the third output in Table 4.20 showed that tax policy reforms had a positive and significant effect on voluntary tax compliance among SMEs in Nairobi County given ($\beta = 0.875$, $t = 14.034$, $p = .000$, $p < 0.05$). The findings implied that a unit increase in tax policy reforms would result to increased voluntary tax compliance among businesses under study by 0.875 units respectively holding other factors constant.

Table 4.20: Tax Policy Reforms and Voluntary Tax Compliance (n=281)

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.643a	0.414	0.412	0.66652		
a Predictors: (Constant), Tax Policy Reforms						
ANOVAa						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	87.496	1	87.496	196.952	.000b
	Residual	123.946	279	0.444		
	Total	211.441	280			
a Dependent Variable: Voluntary Tax Compliance						
b Predictors: (Constant), Tax Policy Reforms						
Coefficientsa						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.510	0.197		2.586	0.010
	Tax Policy Reforms	0.875	0.062	0.643	14.034	0.000
a Dependent Variable: Voluntary Tax Compliance						

4.9.5 Joint Influence of Tax Reforms on Voluntary Tax Compliance (n=281)

Last but not least, the joint effect of tax reforms on voluntary tax compliance among SMEs in Nairobi County was investigated. The four tax reforms under study namely technological tax reforms, administrative tax reforms, tax payer education reforms and tax policy reforms as predictor variables were regressed against voluntary tax compliance as the dependent variable so that the combined effect of these tax reforms on voluntary tax compliance among SMEs under study could be quantified. The findings are presented in Table 4.21.

The following model was fitted in showing the relationship between tax reforms and voluntary tax compliance among SMEs in Nairobi County after obtaining the β coefficients associated with each variable.

Voluntary Tax Compliance among SMEs in Nairobi County = -0.599 + 0.367 Technological Tax Reforms + 0.220 Administrative Tax Reforms + 0.266 Tax Payer Education Reforms + 0.328 Tax Policy Reforms

Where;

-0.599 = is the value of voluntary tax compliance among SMEs in Nairobi County when the value of tax reforms is equal to zero.

0.367= is the regression coefficient which implies that for every unit increase in technological tax reforms, the voluntary tax compliance among SMEs under study is expected to increase by 0.367 units holding all other factors constant.

0.220= is the regression coefficient which implies that for every unit increase in administrative tax reforms, voluntary tax compliance among SMEs under study is expected to increase by 0.220 units holding all other factors constant.

0.226= is the regression coefficient which implies that for every unit increase in tax payer education reforms, voluntary tax compliance among SMEs under study is expected to increase by 0.226 units holding all other factors constant.

0.328= is the regression coefficient which implies that for every unit increase in tax policy reforms, voluntary tax compliance among SMEs under study is expected to increase by 0.328 units holding all other factors constant.

The findings presented in Table 4.21 show that the tax reforms under study namely technological tax reforms, administrative tax reforms, tax payer education reforms and tax policy reforms explained a significant proportion of the changes in voluntary tax compliance among SMEs in Nairobi County. This is demonstrated by the R square of 0.699 which implied that 69.9% of the changes in voluntary tax compliance among SMEs in Nairobi County was explained by technological tax reforms, administrative tax reforms, tax payer education reforms and tax policy reforms in place. The rest of the changes in voluntary tax compliance among these SMEs, 30.1%, was linked to other factors not considered in this model.

The Analysis of Variance results as presented in output two shows that the overall model used to link the tax reforms under study to voluntary tax compliance among SMEs in Nairobi County was significant given (F=160.028, p=0.000, p<0.05). Further, the results implied that the

independent variables namely technological tax reforms, administrative tax reforms, tax payer education reforms and tax policy reforms were good predictors of voluntary tax compliance among SMEs under study.

The regression estimates as outlined in the third output showed that technological tax reforms positively and significantly affected the voluntary tax compliance of SMEs under study as shown by ($\beta = 0.367$, $t = 7.014$, $p = .000$, $p < 0.05$). These findings implied that a unit increase in technological tax reforms would result to increased voluntary tax compliance among SMEs under study by 0.367 units. The findings also showed that administrative tax reforms had a positive and significant effect on voluntary tax compliance among SMEs in Nairobi County given ($\beta = 0.220$, $t = 4.369$, $p = .000$, $p < 0.05$). The results implied that a unit increase in administrative tax reforms would lead to an increase in voluntary tax compliance among the SMEs under study by 0.220 units.

The findings further showed that tax payer education reforms had a positive and significant effect on voluntary tax compliance among SMEs in Nairobi County as shown by ($\beta = 0.266$, $t = 5.042$, $p = .000$, $p < 0.05$) implying that a unit increase in taxpayer education tax reforms would lead to increased voluntary tax compliance among SMEs in Nairobi County by 0.266 units. Lastly, it was established that tax policy reforms positively and significantly affected the voluntary tax compliance of SMEs in Nairobi County as shown by ($\beta = 0.328$, $t = 5.786$, $p = .000$, $p < 0.05$) which implied that increasing tax policy reforms by one unit would result to increased voluntary tax compliance among SMEs under study by 0.328 units. Generally, the investigation of the joint effect of tax reforms on voluntary tax reforms among SMEs under study showed that technological tax reforms had the largest effect on voluntary tax compliance among these businesses followed by tax policy reforms then tax payer education reforms and lastly administrative tax reforms.

The collinearity statistics as presented in the third output was crucial in enabling the researcher to assess whether the data suffered from multicollinearity issues by evaluating the VIF values. The assumption for multicollinearity is that, when the VIF value lies between 1 and 10, then there is no multicollinearity. Given that all the VIF values associated with each of the predictor variables were less than 10, there was no case of multicollinearity among the independent variables.

Table 4.21: Joint Influence of Tax Reforms on Voluntary Tax Compliance (n=281)

Model Summary								
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate				
1	.836a	0.699	0.694	0.48042				
a Predictors: (Constant), Tax Policy Reform, Administrative Tax Reforms, Taxpayer Education Reforms, Technological Tax Reforms								
ANOVAa								
Model		Sum of Squares	df	Mean Square	F	Sig.		
1	Regression	147.74	4	36.935	160.02	.000b		
	Residual	63.702	276	0.231				
	Total	211.441	280					
a Dependent Variable: Voluntary Tax Compliance								
b Predictors: (Constant), Tax Policy Reforms, Administrative Tax Reforms, Taxpayer Education Reforms, Technological Tax Reforms								
Coefficientsa								
Model		Unstandardized Coefficients	Standardized Coefficients	t	Sig.	Collinearity Statistics		
		B	Std. Error	Beta		Tolerance	VIF	
1	(Constant)	-0.599	0.166		-3.613	0.000		
	Technological Tax Reforms	0.367	0.052	0.352	7.014	0.000	0.434	2.305
	Administrative Tax Reforms	0.220	0.050	0.183	4.369	0.000	0.624	1.603
	Taxpayer Education Reforms	0.266	0.053	0.238	5.042	0.000	0.491	2.035
	Tax Policy Reforms	0.328	0.057	0.241	5.786	0.000	0.629	1.59
a Dependent Variable: Voluntary Tax Compliance								

4.10 Chapter Summary

This chapter has provided a comprehensive account of how the data gathered was analyzed in order to answer the stated research questions. The first objective of the study was to establish the effect of technological tax compliance on the voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya. The study found that technological tax reforms had a positive and significant effect on the voluntary tax compliance among the businesses under study both in isolation and synergistically in a multiple regression model. The second objective of the study was to determine the effect of administrative tax reforms on the voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya. The study

established that administrative tax reforms also positively and significantly affected voluntary tax compliance both in isolation and also when assessed together with the other tax reforms in a multiple regression model. The study further examined the effect of tax payer education reforms on the voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya. It was found that tax payer education reforms both in isolation and also in combination with the other tax reforms in a multivariate regression analysis positively and significantly affected voluntary tax compliance among SMEs under study. The study also sought to find out the effect of tax policy reforms on the voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya. The study found that tax policy reforms had a significant positive effect on voluntary tax compliance among these businesses when assessed both in isolation and synergistically in a multiple regression model. The final objective of the study was to establish the joint effect of tax reforms on the voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya. The study found that the tax reforms under study had a joint positive and significant effect on the voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya.

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a discussion of the study findings which is presented in subsections reflecting the study objectives. The chapter also presents the conclusions, recommendations for policy and practice and areas for further research. The study limitations are also presented.

5.2 Discussions of Study Findings

This section presents the discussions of the major findings of the study. The discussions are presented in line with the study objectives. The discussions are presented first with the primary findings of the study and these are compared and contrasted with the reviewed literature in the second chapter.

5.2.1 Effect of Technological Tax Reforms on Voluntary Tax Compliance among SMEs

The study sought to establish the effect of technological tax compliance on the voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya. The descriptive statistics showed that a majority of the SMEs in the study area had embraced the iTax system as one of the technological tax reforms. However, despite the high awareness of the KRA M-Service platform as a technological tax reform implemented during the selected study period, the utilization of this platform did not match the awareness levels. The findings also showed that the channels through which technological tax reforms affected the willingness of SMEs under study to voluntarily meet their tax obligations was by enhancing the ease, convenience, time saving, efficiency and flexibility in meeting tax obligations while reducing the cost and strain incurred in complying with tax obligations. Generally, the responses given showed that iTax system as a technological tax reform had a larger impact as reform when compared to the KRA M-Service platform.

The inferential analysis showed that technological tax reforms had a significant positive effect on the voluntary tax compliance among SMEs in Nairobi County, Kenya both in isolation and also when assessed together with other tax reforms in a multivariate regression analysis. The findings are consistent with that of Munyoro (2017) who even though did not differentiate between voluntary and involuntary tax compliance found that technological reforms in

particular iTax system had a positive and significant effect on the tax compliance of the SMEs which was associated with the reduced cost, simplicity and time required to file returns for registered SMEs hence encouraging them to avoid tax evasion. The findings also agreed with that of Wasao (2014) who demonstrated that online system namely online registration, filing and payments had a significant positive effect on tax compliance of the small taxpayers even though the degree of compliance differed across sectors.

The findings of this study however contradicted that of Livoi (2017) who found that while technological reforms in particular iTax was a key factor in enhancing corporate tax compliance, its effectiveness was weak to influence corporate tax compliance. According to the study, in as much as companies filed their return online, not all companies filed their correct tax liability, others manipulated their tax liability for other gains. Also, not all PINs had been migrated to the KRA online platform.

5.2.2 Effect of Administrative Tax Reforms on Voluntary Tax Compliance among SMEs

The study also sought to determine the effect of administrative tax reforms on the voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya. The descriptive analysis showed that the administrative tax reforms implemented under the stipulated study period particularly decentralization of PIN registration to self and cyber cafes and requirement for tax clearance certificate in transacting with the government influenced the willingness of SMEs to voluntarily comply with their tax obligations to a large extent. Furthermore, even though a number of the SMEs had not visited the customer care centers in Huduma Centers and mobile centers or interacted with the KRA call centers, those who exploited these platforms had seen their voluntary tax compliance behaviour change. The requirement for TCC when transacting with the government was efficient in enforcing compliance and creating tax discipline while the customer care centers at Huduma Centers and mobile centers and KRA call centers enhanced tax payer support and facilitation especially through prompt and timely provision of tax related assistance.

The regression results showed that administrative tax reforms positively and significantly affected voluntary tax compliance among SMEs in Nairobi County when assessed individually and also when assessed in combination with the other tax reforms. The findings supported that of Kobia and Oliech (2016) who found that offering iTax services and tax compliance certificate within the Huduma Centre programme improved tax payer compliance with tax

obligations. The findings also agreed with that of Okore (2017) who found that tax compliance certificates which had been strictly applied and was a requirement for all public procurements in Kenya were effective in enhancing compliance of these companies as most of the businesses would want to be certified to gain the trust of the government and therefore goodwill. On the contrary, the findings of this study disagreed with that of Munga (2012) who questioned the efficiency of cyber café operators in enhancing PIN registration among tax payers. The findings also disagreed with that of Nagac (2013) who found that that administrative tax reforms had no significant effect on the compliance level of existing taxpayers.

5.2.3 Effect of Tax Payer Education Reforms on Voluntary Tax Compliance among SMEs

The effect of tax payer education reforms on voluntary tax compliance among SMEs in Nairobi County, Kenya was further examined. The descriptive analysis showed that even though there was high awareness of the KRA tax payer education programs among the businesses under study, the attendance rates were low. The findings also revealed that the tax payer education programs carried out by KRA majorly concentrated on training businesses on filing tax returns through the iTax system. The findings further showed that a large number of the businesses under study found tax clinics, print media taxpayer education (newspapers, magazines, prospects, pamphlets, booklets) and electronic taxpayer education (advertising and internet news, iTax) effective to a great extent as modes of tax payer education, radio/television was found to be effective to a moderate extent while stakeholder sensitization (seminars, workshops and cultural events) and taxpayer summits (taxpayer engagement platforms) were found to be effective to a small extent by a large number of businesses. The findings revealed that tax payer education reforms affected voluntary tax compliance among the businesses under study majorly through their impact on businesses' knowledge of their tax obligations and their understanding of how and why to file and remit their taxes.

The inferential statistics indicated that tax payer education tax reforms had a positive and significant effect on the voluntary tax compliance among SMEs in Nairobi County both in isolation and when combined with the other tax reforms. The findings concur with that of Gitaru (2017) who found that taxpayer education were positively related to tax compliance among the SMEs as taxpayers would readily accept any new tax system introduced if they had ample knowledge to understand the system. The findings also supported that of Jemaiyo and Mutai (2016) who found that tax educational programmes such as tax seminars had a significant effect on tax compliance because once individuals had the knowledge pertaining

the importance of taxation, they would be influenced to comply without any enforcements or pressure on them. The findings however did not support the study by Ejakait (2011) which found that taxpayer education did not have a significant influence on the tax compliance behaviour among businesses. The study findings also contrasted that of Mutai (2013) who found that tax knowledge had no relationship with tax registration compliance but weak negative relationship with filing compliance.

5.2.4 Effect of Tax Policy Reforms on Voluntary Tax Compliance among SMEs

The study also sought to find out the effect of tax policy reforms on voluntary tax compliance among SMEs in Nairobi County. The study found out that reintroduction of withholding VAT and presumptive tax to replace Turnover Tax affected the willingness of the businesses under study to voluntarily comply with tax obligations for a large number of businesses that had such tax obligations. Nevertheless, the responses from two of the KRA officials showed that presumptive tax had not attained the expected effectiveness in influencing the voluntary tax compliance among SMEs under study.

The regression analysis showed that tax policy reforms had a significant positive effect on voluntary tax compliance among SMEs in Nairobi County when assessed both in isolation and together in a multiple regression analysis. The study findings concurred with that of Nyangau (2017) who found that there was significant improvement in tax compliance after the enforcement of withholding VAT tax policies in Kenya. The findings are also in line with that of Schepanski and Shearer (2015) and Thomas (2013) who found that the implementation of presumptive tax could improve tax compliance among small businesses. The findings however contradicted that of Dube and Casale (2019) who found that presumptive taxation led to low tax morale and high levels of non-compliance among small businesses and also that of Haji (2017) who found that presumptive tax had an insignificant effect on tax compliance among these businesses.

5.2.5 Joint Effect of Tax Reforms on Voluntary Tax Compliance among SMEs

The last objective of the study sought to establish the joint effect of tax reforms on the voluntary tax compliance among small and medium enterprises in Nairobi County, Kenya. The study found that tax reforms had a joint positive and significant effect on the voluntary tax compliance among these businesses. These findings were in line with of Bjork (2013) who found that effective implementation of tax reforms improved tax compliance and reduced non-

compliance which translated to more tax collection. The findings also agreed with that of Kanyinga (2016) who found that tax reforms positively and significantly affected tax compliance among SMEs. However, these findings contradicted that of Livoi (2017) who found that tax reforms had an inverse effect on corporate tax compliance in Kenya implying that tax reforms had not achieved the intended purpose.

5.3 Conclusions

Based on the study findings, it was concluded that the tax reforms under study namely technological tax reforms, administrative tax reforms, tax payer education reforms and tax policy reforms which were carried out for the period 2008 to 2018 individually and in combination, significantly explained voluntary tax compliance among the SMEs in Nairobi County. The study also concluded that technological tax reforms had the largest effect on voluntary tax compliance among businesses under study while the least effect was associated with administrative tax reforms. The study further concluded that the tax reforms under study were attributed to up to 69.9% of the changes in voluntary tax compliance among SMEs in Nairobi County. These conclusions are in line with the findings of Gituku (2011) who found that tax reforms are a necessary tool to ensure that domestic revenue base is regularly protected and nurtured by increasing taxpayer compliance since they are aimed at reducing the incidence of tax evasion by both individuals and business entities. However, the conclusions contradict the conclusion of the study by Livoi (2017) who concluded that tax reforms had an inverse effect on corporate tax compliance in Kenya and that tax reforms in place had not achieved the intended purpose

5.4 Recommendations

Based on the study findings, it is recommended that Kenya Revenue Authority should exploit technological advancements in coming up with solutions to tax related problems that businesses encounter within its tax system in order to motivate businesses to voluntarily comply with their tax obligations. The study recommends for more automation and adoption of systems that further simplify the tax compliance process such as easy access to tax information and its entire tax systems. The study also recommends that the tax authority should sensitize tax payer regarding their M-Service in order to increase utilization levels besides making their SMS platform effective in updating tax payers of any changes within the tax system or providing crucial information needed by businesses.

The study also recommends that the Kenya Revenue Authority should institute effective frameworks and structures that ensure that business tax payers can exploit the avenues put in place to ensure their support and facilitation. The study recommends that the tax authority should ensure that they have adequate personnel at their call centers who are well versed in all issues related to tax in order to ensure that all tax payers queries are quickly responded especially during emergencies and at all times and that there are no cases of misguidance. The study also recommends that the tax authority could expand the tax processes that a decentralized to self or other avenues in order to enhance compliance.

The study further recommends that KRA should devise ways of increasing the attendance rates of their tax payer education programs besides increasing the tax related content and knowledge that is passed on to tax payers. The study recommends the need for carrying out assessments of the effectiveness of different programs which will ensure that comparisons are made and the best combination of programs conducted. The study also recommends a door to door tax payer education and registration strategy in order to reach out to as many business tax payers as possible.

The study recommends that KRA and other policy makers should consider carrying out tax law amendments that create tax heads that are simple and encourage voluntary tax compliance behaviour without much follow up. The study recommends that the tax authority should establish effective frameworks for implementing and making current tax policies attractive for small businesses.

5.5 Limitations of the Study

The researcher faced a number of challenges while carrying out this study. Some of the respondents were unwilling to give out the relevant information needed in the study deemed the information sought as confidential and therefore feared that the information given could be used against them given the nature of the study. This challenge was mitigated by ensuring that responses were given anonymously and the respondents assured that the information would be strictly used for academic purposes only.

In addition, given that the researcher was an employee of KRA, their prior knowledge pertaining to SMEs' tax compliance behaviour could have affected their opinions that are preconceived resulting to bias in selecting the research methods as well as drafting the questions which could affect the findings of the inquiry. In mitigating this challenge, the

researcher ensured that they observed objectivity throughout the research process by considering the views and findings of other scholars who had carried out related research and also taking in to account the supervisor's comments. They also contracted the services of research assistants in collecting the data.

The researcher also faced time constraints given the tight deadlines and university schedule and also competition for time among different tasks. To counter this challenge, the researcher drafted a research plan in order to ensure that each task was carried out in the stipulated time and there was no much distractions. The research assistants were also helpful in reaching the SMEs which ensured that the questionnaires were administered on an agreed best time to avoid time wastage.

5.6 Suggestions for Future Research

The study recommends that a study could be carried out that compares the voluntary tax compliance among businesses of different sizes and also in different sectors in relation to current tax reforms carried out touching on particular industries. A study could also be carried out to determine the level of voluntary and involuntary tax compliance among businesses across sectors and what measures can be undertaken in order to ensure that the implemented tax reforms meet their intended purpose.

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APPENDICES

Appendix I: Consent Letter

Dear (Respondent)

RE: VOLUNTARY PARTICIPATION IN DATA COLLECTION

I am a postgraduate student at Strathmore University undertaking a research project on “**Tax Reforms and Voluntary Tax Compliance among Small and Medium Enterprises in Kenya: A Case of Nairobi County.**” Your business has been selected for this study and you have been selected to fill the questionnaire. Kindly respond to the questions in the attached questionnaire. The information provided will exclusively and solely be used for academic purposes and will be treated with the confidence it deserves. Upon request, you will be furnished with a copy of the final report.

Your cooperation will be highly appreciated.

Yours Faithfully,

Nelly Musyoka

Appendix II: Questionnaire

This questionnaire has been designed to collect information pertaining to “**Tax Reforms and Voluntary Tax Compliance Among Small and Medium Enterprises in Kenya: A Case of Nairobi County.**” Kindly set aside a few minutes of your time to answer the following questions as honestly and objectively as possible. Provide the answers anonymously.

Thank you in advance for your cooperation!

Section A: Enterprise Profile

1. Gender of business owner

- a. Male []
- b. Female []

2. How long has the business been in existence?

- a. Less than One year []
- b. 1-5 years []
- c. 6-10 years []
- d. More than 10 years []

3. What is your main business activity?

.....

4. Number of employees in the SME

- a. Below 20 []
- b. Between 21 and 40 []
- c. Between 41 and 50 []
- d. Between 51 and 80 []
- e. Between 81 and 100 []

5. Annual turnover for the business on average

- a. Kshs. 500,000 and Ksh 2,000,000 []
- b. Kshs. 2,000,001 and Ksh 3,500,000 []
- c. Kshs. 3,500,001 and Ksh 5,000,000 []
- d. Above Kshs. 5,000,000 []

Section B: Technological Tax Reforms

6. Has the enterprise embraced the iTax system?

a. Yes []

b. No []

7. If yes in 8 above, please name the tax obligations you have been able to meet on iTax?

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8. Are you aware of KRA M-Service platform, i.e. KRA MPesa paybill?

a. Yes []

b. No []

9. If yes in 9, to what extent have you used the platform in making your tax remittances?

a. Small extent []

b. Moderate extent []

c. Great extent []

d. Very great extent []

10. If you have been able to use the iTax system and KRA M-Service platform, how has there been a change in the enterprise's capacity to meet its tax obligations **freely/voluntarily**? Explain your answer

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11. State your level of agreement with the following statements on technological tax reforms based on the given scale: **1= Strongly Disagree; 2 = Disagree; 3= Neutral; 4= Agree and 5= Strongly Agree**. Tick only one option.

	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	Filing out tax returns through iTax has reduced the enterprise's money and time related costs considerably.					
2.	This enterprise has had minimal direct contact with the tax officers since the adoption of iTax system.					
3.	As an enterprise, we do not need to be reminded to file all our periodic tax returns.					
4.	Using iTax payments has made it easy for us to make tax remittances accurately, conveniently and on time.					
5.	We have conveniently used the iTax registration system to make amendments of the enterprise's tax details whenever necessary.					
6.	As an enterprise, we have been able to access specific information needed from KRA simply through text messages.					
7.	Remitting out taxes through mobile payments has affected the transparency of our transactions.					

Section C: Administrative Tax Reforms

12. How has each of the following initiatives by KRA assisted small and medium businesses in voluntarily complying with tax obligations?

a. Decentralization of PIN registration to self and cyber cafes

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b. Customer care centers at Huduma centers and mobile centers

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c. KRA call centers

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d. Requirement of tax clearance certificate in transacting with government

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13. State your level of agreement with the following statements on administrative tax reforms based on the given scale: 1= Strongly Disagree; 2 = Disagree; 3= Neutral; 4= Agree and 5= Strongly Agree. Tick only one option.

	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	Our business has been able to easily and quickly access the needed tax services provided by customer care centers placed at Huduma centers and mobile centers.					
2.	We have had all our queries quickly responded to by the KRA call centers especially during emergencies at all time.					
3.	As a business, we no longer fear approaching the KRA PIN issuing system by ourselves.					
4.	We have been able to conveniently seek assistance in handling issues related to our PIN registration from cybercafé operators within our reach whenever necessary.					
5.	Requiring tax clearance certificates in transacting and accessing services in other government departments has made tax evasion hard for us.					

Section D: Tax Payer Education and Tax Services Reforms

14. Are you aware of any tax payer education programs conducted by KRA?

a. Yes []

b. No []

15. If yes, have you attended any of the tax payer education programs?

a. Yes [] b. No []

16. If yes in 15, which of these areas of tax payer education trainings have you been trained on?

a. iTax PIN registration []

b. Filing tax returns through iTax system []

c. Records keeping []

d. Generation of tax payment slip through i-Tax []

17. To what extent are the following modes of training used by KRA effective in educating you as a tax payer? Tick only one option.

	Modes of Training	Small Extent	Moderate Extent	Great Extent	Very Great Extent
1.	Stakeholder sensitization (Seminars, workshops and cultural events)				
2.	Tax clinics				
3.	Print media taxpayer education (Newspapers, magazines, prospects, pamphlets, booklets)				
4.	Electronic taxpayer education (Advertising and internet news, iTax,)				
5.	Radio/ Television				
6.	Taxpayer summits (taxpayer engagement platforms)				

18. If yes in 16, how have the various tax payer education and tax services reforms affected the willingness to **voluntarily** comply with your tax obligations as a business?

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19. State your level of agreement with the following statements on tax payer education and tax services reforms based on the given scale: *1= Strongly Disagree; 2 = Disagree; 3= Neutral; 4= Agree and 5= Strongly Agree*. Tick only one option.

	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	As an enterprise, we have been made aware that there is a helpdesk at KRA offices and Huduma Centre that we can approach to provide assistance when we encounter tax compliance difficulties.					
2.	As an enterprise, we have been trained by KRA on how to comply with tax laws.					
3.	As an enterprise, we have received the necessary tax compliance technical support from KRA officers.					
4.	Taxpayer sensitization has played a vital role in changing our attitude towards paying taxes as an enterprise.					
5.	Our staff have attended KRA tax summits where enterprises have a chance to air their grievances and make suggestions on service improvement.					
6.	Current publicized prosecution efforts and the consequences/penalties of non-compliance have made tax evasion hard for us.					

Section E: Tax Policy Reforms

20. How have the following tax policy reforms affected your willingness to **voluntarily** comply with your tax obligations as a business?

a. Reintroduction of withholding VAT

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b. Presumptive tax to replace Turnover Tax

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21. State your level of agreement with the following statements on tax policy reforms based on the given scale: *1= Strongly Disagree to 5= Strongly Agree*. Tick only one option.

	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	As a business, we find the current presumptive tax system fair to us.					
2.	As a business, we find the current presumptive tax system quite affordable and reasonable.					
3.	As a business, we have adequate knowledge and understanding of the presumptive tax system in place.					
4.	As a business, we find the current withholding VAT system fair					
5.	As a business, we find the current withholding VAT framework efficient and satisfactory.					

Section F: Voluntary Tax Compliance among SMEs in Nairobi County

Kindly assess the level of **voluntary** tax compliance in your SME based on this scale: *1= Strongly Disagree; 2 = Disagree; 3= Neutral; 4= Agree* and *5= Strongly Agree*. Tick only one option.

	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	As a business, we file and pay our taxes as a matter of course.					
2.	As a business, we would still pay our taxes on time if there were no controls.					
3.	As a business, we do not feel that we are forced to pay taxes.					
4.	As a business, we have always declared actual income received from all sources to the tax authority honestly without being forced to.					
5.	As a business, we do not follow the stipulated rules and regulation because of the fear of the risks of being checked.					
6.	As a business, we have registered as taxpayers for all the taxes we qualify for without being forced to.					
7.	As a business, we are always keeping up to date records and books of accounts without being forced to.					

Thank you for your participation!

Appendix III: Key Interview Guide for KRA Officials

The following are the questions that the KRA Officials will be asked during the interview:

1. In your opinion, how has the voluntary tax compliance behaviour of SMEs in this tax region changed with the institution of technological tax reforms? Give reference to a specific reform (iTax and KRA M-Service).
2. What are the notable tax administration reforms for the period 2008 to 2018 which have significantly affected the voluntary tax compliance of SMEs in this area? How have they influenced the tax compliance of these SMEs?
3. How has the voluntary tax compliance of SMEs in this area been affected by tax payer education and tax services reforms undertaken by KRA for the period 2008 to 2018?
4. In your opinion, how has the reintroduction of withholding VAT and the replacement of ToT Presumptive tax affected the voluntary tax compliance of SMEs in this area?
5. In your opinion, what measures can be undertaken to effectively implement the various tax reforms so that the SME tax base can broaden? What are the main challenges currently faced in the implementation of these reforms?
6. What other tax reforms would you suggest to improve voluntary tax compliance among SMEs?