FACTORS INFLUENCING TAX COMPLIANCE AND USE OF ONLINE TAX SYSTEMS IN THIKA TOWN

Anne Wamuyu Muchiri

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Declaration

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the Research Paper contains no material previously published or written by any other person except where due reference is made in the Research Proposal itself.

Muchiri Anne Wamuyu

Signature……

Date……6/12/2019……..

This Research Paper has been submitted for examination with my approval as the Supervisor.

Lincoln Ndwiga Njiru…… *[Name of Supervisor]*

…… *[Signature]*

06/12/2019…… *[Date]*

Strathmore Business School

Strathmore University

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Abbreviations

EY: Ernst & Young

ICMS: Integrated Customs Management Systems

ICT: Information and Communication Technology

I-Tax: Integrated Tax Management System

KRA: Kenya Revenue Authority

RECTS: Regional Electronic Cargo Tracking System

SMEs: Small and Medium Sized Enterprises

TIMS: Tax Information Management System

Chapter 1: Introduction

1.1 Background to the study

Tax has been and remains to be the main source of revenue for the government of Kenya. Over time, the Kenyan government, through the Kenya Revenue Authority, has put effort in increasing amounts receivable through reducing the costs incurred in collecting taxes and increasing the tax base. For a tax, system to be adequate, compliance by taxpayers should to be high.Akubo et al (2016) stated that tax compliance is the process by which taxpayers, meet their tax obligations by submitting the relevant documents and any other information needed by the revenue authority. It also involves timely filing of returns by taxpayers. It is important for a taxpayer to understand his tax obligations, the laws involved and the procedures and be literate in order to avoid problems of underpaying and overpaying. The revenue authority should play a role in ensuring that adequate resources is directed towards taxpayers to enable them understand more how to meet their obligations.

Akinboade (2015), in his research states that certain emotions of the tax payers will either motivate them to pay or evade taxes through creative accounting, that is, by understating income and overstating expenses. Therefore the revenue authority should devise the system in a way that makes straighforward, hence increased compliance by taxpayers. The system should also be checked for loopholes so as to make it difficult for the tax payers to evade taxes. He also stated that even though SMEs form a significant proportion of the economy, they are difficult to tax as compared to large organizations. This is because they mostly fall under the informal sector and therefore remit only a proportion of their income to the revenue authorities. Akinboade recognizes the benefits of tax income to the authoroties in developing all regions including the rural areas and states that tax evasion inhibits the growth of a state.

Nketsia (2018), in his journal talks about the importance of SMEs operators learning how to use Computer Assisted Techniques in Financial Record Keeping. This researcher through this journal recommended that a policy of record keeping such as asset register, for SMEs should be put forth as it will assist in the management of the enterprises and it will also assist in issues related to taxation. Therefore, even on using online tax systems, the revenue authorities will have

all the information relating to a business, which is, the correct taxable income and the allowable deductions.

Bojuwon (2015), in their research focused on the understanding of the effective usage of online tax systems by small taxpayers in order to increase tax compliance. Based on the study, tax administrators should create awareness on the tax structures that are in place since a large proportion of the tax payers are usually unaware of these structures. This is important because online tax systems are continuously gaining attention due to the advancing information technology. The study goes ahead to state the definition of online tax system which is the transferring of tax information by tax payers to the tax administrators by using the internet. It advantages are that it increases the level of tax compliance by the taxpayer by making it more convenient to pay taxes, saving on time and saving on costs.

This study aims at determining the relationship between adoption of online tax systems and tax compliance by Small and Medium sized enterprises in Kiambu County. The study will focus on Thika town. The selection of this area was because there are many manufacturing firms in the area. This study will involve collection of data from both the firms and the Kenya Revenue Authority to form a conclusion on whether the adoption of an online tax system by the revenue authority has led to the increase in compliance by the SMEs. If so, the degree of their relationship will also be determined.

1.2 Online Tax systems in Kenya

Tax being the main source of the revenue for the Kenyan government, it had to be developed over time so that it could generate funds adequate for providing public services. According to Waris (2007), taxation in Kenya started during the pre-colonial period. It was however very different from tax in the modern times. A fraction of farm output and items for trade given to the chief granted them access to other territories. Those affected by drought, shared in the distributed farm output. Use of resources in the collection of the fraction owed to the chief as tax was minimal as the individuals remitted the items voluntarily. This form of taxation was equitable since the fraction of output remitted was proportionate to the level of output. In his journal, he stated the following taxes, paid during the colonial period:

Hut and poll tax, was introduced in 1901 through the Hut Tax Regulation and required one rupee to be paid on any native tax. Upon modification, only the owner was required to pay the tax. One either could pay using the currency or forced labor. Land tax, introduced in 1908 through the Crown land bill, which proposed paying of tax on a land that leased at more than 180 Kenyan Shillings. The tax payable on land was proportional to the size of land owned by an individual. Graduated personal tax, imposed on every non- native male or female and it varied depending on the personal income of that individual. First used in 1934. Income tax, charged on a person's total income. In 1954, tax payable by a person earning less than £ 60 was 20 shillings. Tax payable for earnings between £60-120 was 40 shillings. Tax payable for earnings over £120 was 60 shillings.

According to EY Tax Guide (2019), the present Kenya has quite a complex tax structure, which includes the following: Income tax, enacted in 1973, where all income accrued and derived in Kenya by a resident or a non-resident, and profits made by a business are charged. Value Added Tax which was enacted in 1990, it is charged on a person carrying out a business in Kenya whose turnover is 5 Million or more in a period of 12 months. The owner of the business should register for it at the Kenya Revenue Authority office. Custom duty introduced in 2004, which helped in determining the import duty. It is usually charged based on the price of the item imported or it weight. The rates were 10% for intermediate goods and 20% for finished goods. Excise duty enacted in November 2015, is charged on licensed manufacturers in Kenya who produce excisable goods and qualified person who provide excisable services and registered persons who import excisable goods. Miscellaneous fees and levies, enacted in August 2016, which are extra fees paid on imports and exports. Other taxes include property tax, charged on property based on its value, and catering levy, paid by restaurants and hotels.

According to the Kenya Revenue Authority official website, technology in tax leads to increased tax compliance and enhances service delivery by tax officials. The following are the systems introduced by KRA in order to attain this: Integrated Tax Management System (i-Tax), which enables a taxpayer to update his details online, file returns and register tax payments as well as making status enquiries. Integrated Customs Management Systems (ICMS), used to automate the

manual process involved in customs operations. Regional Electronic Cargo Tracking System (RECTS): it improves security of cargo, by tracking its movement through the Northern corridor.

1.3 Problem Statement

Kenya Revenue Authority, established through the Kenya Law chapter 469 carried out the following functions: Collecting revenues for the government of Kenya since taxes are the main source of revenue to the government. Border control, so as the control entry of items and persons at the borders of Kenya and enforcing of laws that relate to tax. Since Kenya Revenue Authority has a duty of revenue collection, it has to ensure that the revenue collected meets the needs and targets of the government. KRA has therefore come up with ways to increase the taxes collected by introducing i-Tax, RECTS and ICMS system. This has led to reduced cases of non-compliance and reduced costs of revenue collection. (www.kra.go.ke)

Monica et al (2017), in their research on effects of electronic tax systems on tax collection efficiency stated that, electronic tax systems reduce the costs incurred by taxpayers in complying. In addition, it saves on time that used by taxpayers to go to the revenue authority offices to file returns and claim refunds. The researchers concluded that the Kenya Revenue Authority employees are well equipped with knowledge on i-Tax. However, the taxpayers are not well knowledgeable and when they seek clarifications online about the electronic tax system, they are not given adequate assistance. The researchers recommended that the system should be availed on a variety of browsers to make it more accessible, KRA needs to employ workers to train taxpayers on the electronic tax systems and the systems be simplified.

Jürgen et al (2011), in their study stated that computerized tax systems helps attain good governance by improving transparency and accountability of both the taxpayers and the Revenue Authority. The researchers' focus was on providing details on designing and implementing computerized tax systems by providing comprehensive steps in adopting the system. They stated the following as the advantages of i-Tax; It simplifies the management of tax, can be tailored to meet the specific needs of a state's tax administration system, it speeds up the process, it is flexible and can be adjusted to accommodate necessary changes and it can handles numerous data at once.

Kitillya (2011) researched on the tax administration reforms in Tanzania. His study touched on the factors behind the success of Tax administration reforms as well as the challenges encountered in the formulation and implementation of the reforms. According to him, for a reform to succeed, the management has to be committed to the process and financial, political and technical assistance will be required. He emphasized on the importance of balancing the reforms for optimum results. He also stated that tax payers' mindset on the reforms are a determining factor of the success rate. He finally concluded that monitoring and evaluation of the reforms is important as it leads to early rectification of any defects before it is too late.

This study therefore will focus on the use of i-Tax system, by the taxpayers. It will look at the impact of i-Tax on compliance. The question here is, is there a relationship between i-Tax and compliance by taxpayer? Is the relationship a positive or a negative one? Is the relationship strong or weak?

The case study for this research will be Thika. The motivation behind the choice of this location was the presence of quite a number of manufacturing SMEs in Thika and a branch of KRA in the locality. Therefore, there will be comparison between, data collected from the firms on adoption i-Tax and compliance to that collected at the Revenue's office for accuracy and efficiency.

1.4 Objectives

1.4.1 General Objective

To establish the relationship between Online Tax Systems and Tax Compliance among SMEs in Kiambu County: A case study of Thika.

1.4.2 Specific Objectives

1. To determine the level of computer literacy and proficiency amongst SME managers in Kiambu county.
2. To examine SME managers' knowledge of online tax systems.
3. To examine the extent of adoption of online tax systems according to KRA, benefits and challenges of the systems.

1.5 Research questions

1. What is the level of computer literacy and proficiency among SME managers in Kiambu County?
2. What is the SME managers' knowledge of online tax systems?
3. What is the impact of adoption of online tax systems on tax compliance behavior?
4. What are the challenges faced by SMEs in adoption of online tax systems?

1.6 Significance of the study

This study will be important to the following categories of people; the government of Kenya, Taxpayers, Kenya Revenue Authority and Researchers. It will look into the relationship of between i-Tax system and compliance. This will enable the Revenue Authority to know whether it should continue investing in the system or if it could possibly find other alternatives.

According to a journal by Zachary et al (2017), history shows that there has always been reluctance to pay taxes by taxpayers. Even though the SMEs are constantly increasing, this is not the case for the taxes collected from them, as they are still insufficient. Small and medium sized enterprises are the backbone of the Kenyan economy; however, most of them do not register for tax purposes, which make it difficult for the revenue authority to tax them, as they have no information on their incomes. My study therefore aims at collecting data in Thika town to determine if this is the case also in the region and if so researching on possible solution to the problem.

The administration of Argentina had a duty to ensure that there was no evasion and they monitored and facilitated compliance by taxpayers. To minimize the problem of tax evasion, there was use of carrot and stick approach, which involves awarding those who comply and punishing those who evade. The administration also created awareness by ensuring that taxpayers had adequate information concerning their tax obligations. This was a long-term strategy. (Sanchez 2011). The government therefore will know of effective ways to improve tax compliance, be it by creating awareness or enforcing new penalties and punishments.

A number of factors will therefore influence taxpayers' behavior compliance. Brautigam et al (2008), in their journal stated that Tax payers who feel that their interests are well represented in

a democratic way, will comply more to paying taxes as compared to those who feel that they will not benefit in any way. If they feel like the use of taxes by the government ultimately benefits them, they will be more inclined to comply in paying of taxes. If the income will go into financing developments and the taxpayers benefit from the roads, schools and hospitals, they will comply more.

Since there are limited sources on tax compliance and online systems studies conducted in Thika, this work will act as a reference material to researchers who may desire to conduct further studies on this field.

Chapter 2: Literature review

2.1 Introduction

This chapter involves the analysis of theories that are relevant to this study. Thereafter, the next subchapter, which is empirical review, will illustrate past studies conducted by other researchers, which are relevant to this research. There will also be an analysis of the research gap, which will clearly outline the gap that this study intends to bridge and finally a conceptual framework, which will show the independent, and dependent variables and how they relate to each other.

2.2 Theoretical Review

This study will be guided the following theories; Economic Deterrence Theory, Psychological Theories, which are theories of tax compliance and Technology Acceptance Model, which explains, factors influencing innovation adoption.

2.2.1 Economic Deterrence Model

According to Becker (1974), economic approach answers the following questions; what level of resources and punishment is appropriate in enforcing various kinds of legislation? How many transgressions are okay and how many transgressors should go Scott-free? He stated that serious offences to be punished more severely and frequently as compared to mild offences. He also stated that imposing fines on offenders is more advantageous than punishment as it promotes conservation of resources, compensates society and punishes the transgressor.

Atawodi and Ojeka (2012), in their journal stated that although tax is an important source of revenue for the government projects, tax compliance among SMEs is poor. The study purposed to determine the factors that led to non-compliance and the results were complicated filing procedures and high tax rates. The researchers referred to taxpayers as utility maximizers, meaning that motives such as profit maximization and probability of detection are what influence them. Taxpayers therefore weigh their options in order to whether to pay taxes or evade the chances of getting into trouble and the consequences. They therefore select an option that will maximize expected returns after tax while incorporating the risk.

According to Fjeldstad et al (2012), tax evasion is a universal problem, which has economic consequences. They stated that, in order to solve this problem, there has to be an understanding of why taxpayers choose to pay or evade taxes. They also highlighted the criticisms of the

economic deterrence model by stating that there were expectations for taxpayers to react in a similar manner to risks and they have similar knowledge to the probability of detection. The model also pays too much attention on use of coercion to improve compliance.

This theory is important to this study as it give KRA an insight into what factors influence tax compliance and the effectiveness of penalties and punishments to evaders.

2.2.2 Psychological Theories

According to Jayawardane (2015), psychological factors affect tax compliance behavior among taxpayers. When the government, the revenue authorities and taxpayers of a state maintain good relationships, tax compliance is improved. This theory also touches on the importance of the taxpayer attitude on factors concerning the tax system such as the tax regulations and policy. An individual who is religious, selfless or follows laws is more likely to be tax compliant. Taxpayers motivated to pay taxes by the feeling that it is their duty to pay taxes, tend to be more compliant as compared to those are motivated by fear of being punished. The researcher also pointed out that taxpayers are more motivated to pay if they feel that the tax system treats them fairly without bias.

According to Feld and Frey (2006), taxpayers do not like paying taxes. Taxpayers prefer to free ride even though government uses tax to provide public goods. The researchers advocated for intrinsic to taxpayers to pay taxes by giving rewards. However, this would have negative effects in the future, as taxpayers will taxpayers will only be motivated to comply if rewards are given. KRA and the government should work towards changing taxpayers' attitudes towards tax. The government should undertake developmental projects that benefit the taxpayers and look for ways to minimize the free rider problem.

2.2.3 Technology Acceptance Model

Perceived usefulness and ease of use affects the process of technological innovation adoption Gor (2015). This model has the following two important components; degree to which a person will believe that a system will improve job performance and the effort required in using the system. Tran and Cheng (2017), in their study, looked at the use of biofuels as an alternative to fossil fuels, which were almost exhausted. The researchers therefore used different models in investigating the factors affecting consumers' intention to use biofuels and adoption. According

to researchers, this model helps in predicting and explaining users' behavior and attitudes towards technology. Users' attitudes towards a given system are determined by if he actually uses the system or not.

Blagoeva and Mijoska (2017), in their research analyzed the factors that determine adoption of online shopping among the youth in Macedonia. According to the researchers, TAM model bases its theory on both the Theory of Reasoned Action and Theory of Planned Behavior. Four of the most important components of the model are; perceived usefulness, perceived ease of use, behavioral intention and actual usage behavior. The main advantage stated by the researchers is that this model's ability to be tailored to meet the needs of the research in question. This model applies only to the usage behavior of computers. It is useful in showing respondents' attitudes towards the use of a new technology.

This theory will therefore be useful in determining how receptive potential users of the online tax systems are, by looking at the perceived usefulness and ease of use of the system. It will give an insight into how many taxpayers have become receptive of the system and have actually adopted it. It will assist KRA in giving relevant training to the taxpayers and making the systems more user-friendly.

2.3 Empirical review

This subchapter looks at a variety of studies conducted by researchers in relation to objectives conducted by researchers in relation to objectives of this study. It looks at the similarities, differences and inconsistencies between the studies hence leading to the identification of the research gap.

2.3.1 Computer literacy levels and proficiency among SME managers

A study carried out by Taylor (2019), purposed to examine the role of leaders, market environment and organizational factors in order to make decisions concerning adoption of ICT. The researcher stated that the main challenges faced in the adoption of ICT by SMEs are; the financial capability to invest and the lack of skilled staff. He proposed a behavior model of ICT adoption, which consisted of leader factors, organizational factors and market environment. The leader factors entailed; leaders' innovativeness, attitude towards ICT, ICT knowledge and

leaders' risk aversion. He pointed out that the leader in an organization was the one to set the pace for other employees and therefore by being innovative he can easily influence adoption of ICT in the firm. By not being computer literate, the leaders in an organization miss the advantages that they can accrue as a firm. He concluded that leaders who are knowledgeable on ICT are most likely to adopt it.

Schmidt et al (2015), in their study, stated that management needed to keep up with the technological advancement. Because of gradual development of technology, IT knowledge is particularly perishable. By keeping up with IT, the managers would be more effective in leading their subordinates. They further stated that in order for organizations to mitigate the risk of technical incompetence of managers, they needed to either minimize on the change or make the managers motivated to keep up with the technological changes. The researchers presented the two strategies diagrammatically as follows:

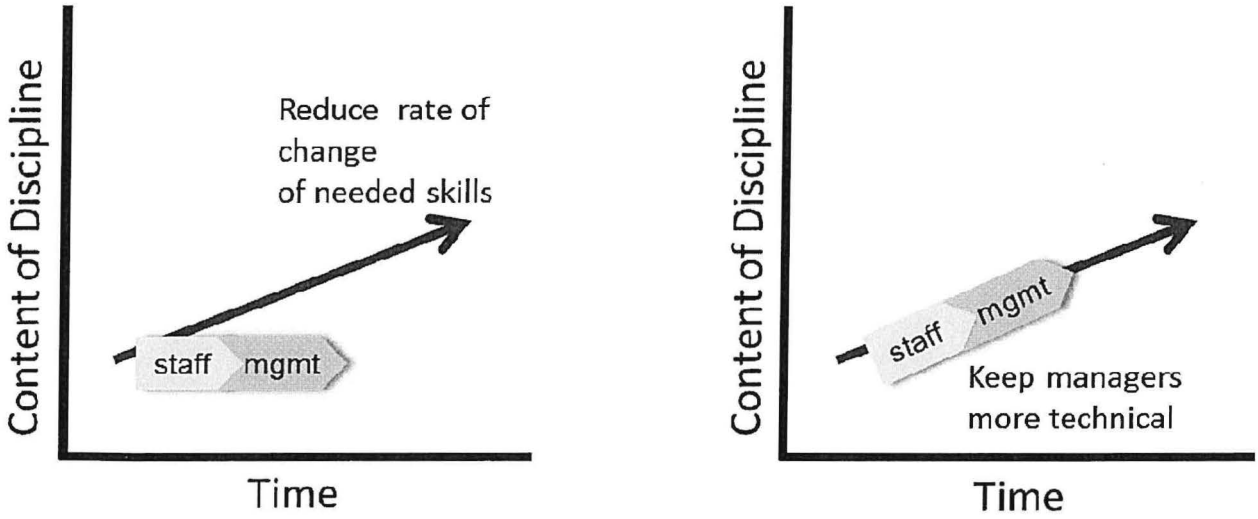

Figure 1: Commercial Practices to Promote Technical Depth of Leadership.

The researchers suggested that leaders who were experts in IT should not work in isolation. They should work together with their colleagues so that they can learn from each other. They finally concluded that organizations should regularly monitor their progress in relation to their technological stand to know if they are where they should be.

Nduati et al (2015) carried out a research to investigate on the factors affecting adoption of ICT by SMEs in Thika Town. The researchers classified the factors into three, namely; cost of the ICT materials, development of skills in ICT and infrastructure. They further classified the skills development into; ordinary level, advanced level and tertiary level. They stated that since the adoption of ICT depended on the owner of the business, lack of knowledge would hinder the whole process of adoption. ICT development is therefore an important factor in the running of SMEs. They concluded that a majority of business owners only had basic understanding of ICT even though they considered it important. The cost involved with installation of IT gadgets was also expensive hence leaving some SMEs out. The respondents involved in the data collection stated the importance of managers' support in the process of adopting ICT in an organization as it encouraged a learning environment for other employees.

2.3.2 SME managers' knowledge of online tax systems, benefits and challenges of the systems

(Olowookere & Fasina 2013) carried out a research in Lagos State, Nigeria, to examine education of taxpayers as a strategy in motivating voluntary compliance. They stated that taxpayers, due to their desire to increase revenues and decrease costs, might evade tax or try to minimize it as much as possible. The researchers mentioned low education level as one of the reasons why taxpayers may not comply with paying taxes. However, they also stated that when a taxpayer is more educated on issues concerning tax, they might avoid taxes. The researchers concluded that education to taxpayers was an important ingredient in the administration of tax as it will enhance compliance and reduce evasion.

According to Machogu & Amayi (2013), educating taxpayers is an important strategy in enhancing voluntary tax compliance as well as improving service delivery by the revenue authority. It is a tool used to equip taxpayers with knowledge on the procedures and laws on tax. The researchers noted that failure of taxpayers to comply with tax obligations might be unintentional, where the taxpayer does not understand the procedures and the laws on tax or intentional, where a taxpayer has negative perceptions concerning the tax system. Even though improving tax compliance is a difficult task, it is possible through simplifying the tax system and appreciating the taxpayers whenever there is a slight improvement. They therefore concluded

that tax knowledge is important in motivating tax compliance since the two variables have a positive relationship.

According to Gitaru (2017), taxpayer education equips the taxpayer with information that enables them to be compliant and to have positive attitudes towards the tax structure. Taxpayers usually try to minimize costs while the government tries to maximize revenues. To make this possible, the government comes up with ways to improve compliance by taxpayers. One effective strategy is using taxpayer education. Increase in revenues because of compliance then enables the government to provide amenities to its citizen such as schools. The researcher therefore concluded that for acceptance of a system by taxpayers, they needed to be equipped with knowledge necessary in understanding the system. This therefore makes education offered by the tax authorities important as it increases taxpayers' confidence needed in fulfilling their responsibilities.

(Olaoye & Kehinde 2017), in their research on the impact of IT on tax, administration in Nigeria looked at the relationship between IT and tax planning and its implementation. They stated that for a tax system to be efficient, it needed to be; easily understood, adjustable to suit the ever-changing environment, transparent and that it should make the economy better off. For the i-Tax system to be effective and efficient, the taxpayers should have a constant supply of electricity. The following are the challenges that identified by the researchers were that: adoption of IT in tax could lead to differing viewpoints among the taxpayers. Inputting of wrong data by taxpayers could make the system ineffective since the taxable amounts computed would be wrong. Internet connection was a challenge. Power shortages, high cost of the electronic devices, high illiteracy levels and threat of hackers. The researchers pointed out that if taxpayers or tax administrators used the system carelessly, it could be catastrophic. They recommended close monitoring of online tax systems due to its impact on the state.

(Ondara et al 2016), conducted a study on influence of online tax filing on tax compliance among SMEs in Nakuru Town. They pointed out that electronic tax filing had brought about some benefits, which were not possible with the use of the manual systems. The main reason why the government had introduced the online tax systems was to improve on the services provided to its citizens as they could file their returns at their own convenience. However, the

researchers stated the following as the challenges of adopting the online tax systems: computer literacy levels, where some of the taxpayers were not computer literate and they had to engage attendants of cybercafés to do it for them at a fee, which made it expensive. Some of the taxpayers opted to take time and figure out how the tax systems operated hence making it time consuming. Another challenge posed is that when the taxpayer engages another person to file his returns, then the taxpayer will have to disclose sensitive information about income levels. This leaves a taxpayer not having confidence in the tax system. The final challenge was that the online system was unable to hold the large number of users during the peak times, which led to hanging of the system. The researchers recommended that KRA should emphasize on taxpayers working on their computer literacy since it is what mostly affected compliance.

2.3.3 Extent of adoption according to KRA

According to the Auditor General's report on the financial statements of KRA for the financial year 2015/2016, the Domestic Taxes Department had recorded an increase in revenue collections and registration by taxpayers by 16.1%, compared to the previous financial year. KRA was also working on the designing, formulation and implementation of Tax Information Management System (TIMS), meant to enhance effectiveness in controlling the use of the registers. In this financial year, the number of taxpayers who updated their i-pages was 2,173,410. The number of new registrations by taxpayers was 1,792,507. This led to opening of new i-Tax support centers in Sameer Park, Malindi, Embu and Garissa.

Based on the KRA website, revenue collection for the financial year 2017/2018 increased. The growth recorded was at 9.6%. Although the growth was facilitated by the conclusion of elections, it also occurred due to technological advancement and tax reforms implemented over time. To improve on the revenue collections, KRA concluded on focusing on utilizing data collected on utilizing data collected through data collected through i-Tax System among other initiatives.

	Target- Treasury	**Actual Receipts FY 2015/16**	**% target realized FY**	**Actual Receipts FY 2014/15**	**Year on Year Growth**

			2015/16		
	KShs	KShs	%	KShs	%
Revenue Collection					
Treasury collections					
Customs Services Department	329,533,485,582	325,271,676,248	98.7	313,291,233,562	3.8
Domestic Taxes Department	832,104,752,528	819,455,557,699	98.5	705,720,567,301	16.1
Traffic Revenues	3,751,291,712	2,859,225,149	76.2	2,964,237,593	-3.5
Total Net Treasury collections	1,165,389,529,822	1,147,586,459,096	98.5	1,021,976,038,456	12.3

Table 1: Kenya Revenue Authority Annual Report and Financial Statements as at June 2016

2.4 Research Gap

Based on the empirical review, there has been a number of studies related online tax systems. Past researchers have looks at the objectives independently in relation to tax compliance. The study carried out in Thika Town in relation to this topic looked at factors affecting ICT adoption among SMEs.

This study therefore aims to look at the relationship between the online tax systems and tax compliance, the area under study is Kiambu County, focusing on Thika Town as the case study. A look into past researches conducted in Kiambu County shows that there is limited information on the adoption of online tax systems by SMEs and the relationship with tax compliance. Therefore, this study aims at bridging that gap.

2.5 Conceptual Framework

The conceptual framework aims at looking at the relationship between the independent variables in this case being; computer literacy and proficiency among SME managers, SME managers' knowledge of online tax systems, impact of adoption of online tax systems on tax compliance behavior, challenges faced by SMEs in adoption of online tax systems and the dependent variable being tax compliance.

Independent Variables	**Dependent Variable**
computer literacy and proficiency among SME managers	tax compliance
SME managers' knowledge of online tax systems, benefits and challenges of the systems	
Impact of adoption of online tax systems on tax compliance behavior	

Chapter 3: Research methodology

3.1 Introduction

This chapter elaborates on the design used, the sample population for this study, data collection methods and the analytic techniques used.

3.2 Research Design

According to Nassaji (2015), many researchers commonly use descriptive research design. He further stated that the aim of this type of design is to show what is, meaning that its focus is mainly on collecting and analyzing data to determine relationships necessary for a specific study. This research seeks to establish the relationship between online tax systems and tax compliance among SMEs in Kiambu County. Descriptive research design will therefore be used as data will be gathered from KRA and the questionnaires filled by the respondents and these will be analyzed.

There is use of correlational research design in analyzing and summarizing data gathered through descriptive design. By use of correlational design, the relationship between the dependent and independent variables is determined.

3.3 Population and Sampling

According to Kothari (2004), population is the entire collection of elements. Sampling is the representation of a population with its subset, with every element having equal odds of being selected (Etikan et al 2015).In our study, the population is all SMEs in Thika Town. The sampling techniques to use are snowballing and simple random sampling. Snowballing sampling involves a respondent referring a researcher to another potential respondent within their networks, who possess similar characteristics to theirs'.

This type of sampling was important to this study because it was challenging to get information from some individuals, as they were not too sure about the intentions of the researcher. Therefore, a respondent stepping in and referring potential respondents smoothened part of the data collection process. In simple random sampling, every element in the population had an equal chance of selection (Taherdoost 2016).

This study focused on SMEs in Thika Town. An assumption applied that the SMEs had similar characteristics that were of interest to this study

3.4 Data Collection

This study needed both qualitative and quantitative types of data. Qualitative data was in the form of questionnaires, which the potential respondents filled. This study used both primary and secondary data. Primary data in this study were questionnaires, which owners and employees of SMEs filled. Secondary data was from a publication by the Deputy Commissioner of KRA. Secondary data in this study is information from KRA. The questionnaires consisted of two parts; the closed ended questions, which was in a graphic rating scale format and open-ended questions.

According to Mathers et al (2009), questionnaires are both time and cost efficient especially if the sample size is dispersed and large. This will therefore be the main method of collecting data for this study. This method of data collection is appropriate to this study, as the data collected is comparable (Bird 2009); therefore, the most common answer selected for analysis.

3.5 Data Analysis

Application of Pearson's correlation coefficient in many studies helps to determine the relationship between variables (Zheng et al 2012). In this study, its use is determining the relationship between each of the independent variables and the dependent variable. The formula, used to determine the relationship, was as follows:

$$r = \frac{N\Sigma xy - (\Sigma x)(\Sigma y)}{\sqrt{[N\Sigma x^2 - (\Sigma x)^2][N\Sigma y^2 - (\Sigma y)^2]}}$$

Where:

- N = number of pairs of scores
- Σxy = sum of the products of paired scores
- Σx = sum of x scores
- Σy = sum of y scores
- Σx^2 = sum of squared x scores
- Σy^2 = sum of squared y scores

3.6 Validity

Establishing the validity of a study is important in ensuring that the data is true and easily recreated by other researchers in future, (Mohajan 2017). It shows to what extent other researchers can rely upon and trust the data, (Zohrabi 2013). According to the researcher, in order to attain internal validity, the participants should double-check the questionnaires to eliminate any mistakes. There needs to be a variety of respondents to ensure that an all-round perspective of the research.

In this study, I will took back collected data to the respondents for confirmation and involved a relatively large number of respondents to make the research valid and reliable.

3.7 Ethical consideration

The data collected by use of questionnaires from the SMEs are confidential and were used only for the purposes of this study. Respondents' names were not included in the questionnaires, in order to protect their identity. Therefore, alphabets were used, example: respondent A, respondent B. After completion of the research, the filled questionnaires were be disposed of to prevent instances of sensitive information falling into unauthorized hands.

Chapter 4: Data Analysis

4.0 Introduction

This chapter will involve a presentation and analysis of the findings obtained during the data collection period. The findings were majorly from primary data and one component from secondary data.

4.1 General Findings

This study aimed at establishing the factors influencing tax compliance and use of online tax systems in Thika Town. Obtaining data for analysis was through circulating questionnaires to SMEs and researching on the percentage of the total registered taxpayers on the online tax system platforms.

4.1.1 Industries of the respondents

The respondents were required to fill in the industry that their companies and businesses were in so that the study would touch on a majority of the industries that SMEs in Thika Town fall. Below is a table showing the industry distribution of the respondents.

Industry	Frequency	Percent
Agricultural	3	5.4
Hospitality	3	5.4
Transport	2	3.6
Advertising	1	1.8
Education	2	3.6
Real Estate	6	10.7
Information Technology	2	3.6
Others	37	66.1
Total	56	100.0

Table 2: What industry is your company in?

The table shows the distribution of the respondents among the industries. 5.4% of the respondents' enterprises belonged to the Agricultural Industry, 5.4% to the Hospitality Industry,

3.6% to the Transport Industry, 1.8% to the Advertising Industry, 3.6% to the Education Industry, 10.7% to the Real Estate Industry, 3.6% to the Information Technology Industry, 66.1% to others. Others with regards to this study includes enterprises in the following sectors; Business outsourcing, Gas sellers, Mpesa Operators, Hardware, Spare parts shops, Dry Cleaners, Wholesalers, Cleaning Companies, Contractors, Financial Services, Legal Services, Consultancies, Health, Rentals, Insurance, Fashion, Banking, Entertainment, Accountancy, Retail, Beauty, Auctioneering and Automobiles.

4.1.2 How long the enterprises have been in operation

Years	Frequency	Percent
Less than 1 year	4	7.1
1-5 years	27	48.2
More than 5 years	25	44.6
Total	56	100.0

Table 3: How long the companies have been operating

This is important to the study as it helps in determining whether the period that companies have been in operation affects its adoption of online tax systems. 7.1% of the respondent enterprises were in operation for less than a year, 48.2% were in operation for 1 to 5 years while 44.6% of the enterprises were in operation for more than 5 years.

4.1.3 How many employees the companies have

Number of employees	Frequency	Percent
Less than 5	32	57.1
5-10	10	17.9
10-20	7	12.5
More than 20	7	12.5
Total	56	100.0

Table 4: How many employees the companies have

The significance of the number of employees to the study is to ensure that the companies fit the description of SMEs and that employees do not exceed 50. According to the data collection results, 57.1% of the respondent companies had less than 5 employees, 17.9% had 5-10 employees while the remaining 12.5% had more than 20 employees.

4.1.4 If the companies have branches

If the companies have branches	Frequency	Percent
No	33	58.9
Yes	23	41.1
Total	56	100.0

Table 5: Does the company have branches?

The significance of this to the study was in factoring in the fact that the interviewed respondent only represented a part of the whole business. Based on the data collection period, 58.9% of the respondent enterprises did not have branches while 41.1% of the companies had branches.

4.1.5 How long the respondent has been working in the company?

Years	Frequency	Percent
Less than 1 year	8	14.3
1-3	23	41.1
More than 3	25	44.6
Total	56	100.0

Table 6: How long the respondent has been working in the company?

The period that the respondent has been working in the company is important in determining the reliability of the information provided. The longer the respondent has been working in the company the more reliable the data provided is.

4.1.6 Position of the respondent in the company

Position	Frequency	Percent
Accountant	5	8.9
Administrator	3	5.4
Agent	1	1.8
Business Development Officer	2	3.6
Caretaker	1	1.8
Chef	1	1.8
Consultant	1	1.8
Customer Service Officer	1	1.8

Director	5	8.9
Employee	5	8.9
Financial Advisor	1	1.8
Finance Director	1	1.8
General Manager	1	1.8
Manager	8	14.3
Managing Director	1	1.8
Marketer	1	1.8
Office Administrator	1	1.8
Office Assistant	1	1.8
Officer	1	1.8
Operations Manager	1	1.8
Owner	9	16.1
Partner	1	1.8
Sales Representative	1	1.8
Secretary	1	1.8
Supervisor	1	1.8
Underwriter	1	1.8
Total	56	100.0

Table 7: What is your position in the company?

This was useful to the study as it was important to understand the respondent before proceeding to the main part of the study. Based on the data collection, 8.9% of the respondents were accountants, 5.4% were administrators, 1.8% were Agents, 3.6% were Business Development Officers, 1.8% were Caretakers, 1.8% were chefs, 1.8% were consultants, 1.8% were customer service officers, 8.9% were directors, 8.9% were employees, 1.8% were Financial Advisors, 1.8% were Finance Directors, 1.8% were General Managers, 14.3% were managers, 1.8% were Managing Directors, 1.8% were marketers, 1.8% were office administrators, 1.8% were officers, 1.8% were operations manager, 16.1% were owners, 1.8% were partners, 1.8% were sales representatives, 1.8% were secretaries, 1.8% were supervisors and 1.8% were underwriters.

4.2 To determine the literacy levels of managers

This section is important to the study as it will be possible to determine if literacy levels and knowledge in Information Technology affects the adoption of online tax systems across enterprises.

4.2.1 Have you taken any computer course in a learning institution?

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Frequency	9	2	-	18	27	56
Percent	16.1	3.6	-	32.1	48.2	100

Table 8: Have you taken any computer course in a learning institution?

Based on the data collection for the study, the managers (who included any person in position of authority), were required to state whether they had taken any computer course in a learning institution. 16.1% of the respondents strongly disagreed, 3.6% of the respondents disagreed, and 32.1% and 48.2% of the respondents agreed and strongly agreed respectively that they had taken a computer course.

4.2.2 Are you up to date with the trends in technology?

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Frequency	4	-	8	23	21	56
Percent	7.1	-	14.3	41.1	37.5	100

Table 9: Are you up to date with the trends in technology?

Based on the data collected, 7.1% of the respondents strongly disagreed that were up to date with the trends in technology, 14.3% were neutral, 41.1% agreed and 37.5% strongly agreed on being up to date with technology trends.

4.2.3 Do you often use the internet?

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Frequency	1	-	2	20	33	56
Percent	1.8	-	3.6	35.7	58.9	100

Table 10: Do you often use the internet?

The respondents were required to state whether they often used the internet. 1.8% of the respondents strongly disagreed on being frequent users of the internet, 3.6% of the respondents were neutral, 35.7% agreed and 58.9% strongly agreed on being frequent internet users.

4.2.4 Are there training programs in place to enhance your IT skills?

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Frequency	16	6	9	16	9	56
Percent	28.6	10.7	16.1	28.6	16.1	100

Table 11: Are there training programs in place to enhance your IT skills?

The respondents stated whether there were training programs in place to enhance your IT skills. 28.6% of the respondents strongly disagreed while 10.7% disagreed and said that there were not training programs in place. 16.1% of the respondents were neutral, while 28.6% agreed and 16.1% strongly agreed on there being presence of training program in place to enhance IT skills.

4.2.5 Are your subordinates learning from you? (From an IT perspective)

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Frequency	12	9	6	14	15	56
Percent	21.4	16.1	10.7	25.0	26.8	100

Table 12: Are your subordinates learning from you? (From an IT perspective)

Based on the data collection process, 21.4% of the respondents strongly disagreed and 16.1% disagreed that their subordinates were learning from them from an IT perspective. 10.7% of the respondents were neutral, while 25% agreed and 26.8% strongly agreed that their subordinates were learning from them.

4.2.6 Have you had training on any application software?

	Frequency	Percent
No	19	33.9
Yes	37	66.1
Total	56	100

Table 13: Have you had training on any application software?

Based on the data collection process, 33.9% of the respondents stated that they had not undertaken any application software training, while 66.1% of the respondents had undergone training in one or more application software.

4.2.7 How would you rate your computer literacy skills?

Rating	Frequency	Percent
Average	37	66.1
Excellent	13	23.2
Poor	6	10.7
Total	56	100

Table 14: How would you rate your computer literacy skills?

The respondents rated their computer literacy skills according to how they were able to perform their tasks that needed the use of computers. 66.1% of the respondents rated their computer literacy skills at average, 23.2% rated their skills at excellent while 10.7% of the respondents rated themselves as having poor computer literacy skills.

4.3 To determine managers' knowledge of online tax systems

This section was important to the data collection process as it helped in determining whether the SMEs were aware of the existence of online tax systems, whether they had undergone any training either from the KRA officials or from friends and their basic perceptions on the online tax systems.

4.3.1 Are you aware of the online tax systems in Kenya?

	Strongly Disagree	Disagree	Neutral	Agree	Strong Agree	Total
Frequency	5	1	3	19	28	56
Percent	8.9	1.8	5.4	33.9	50.0	100

Table 15: Are you aware of the online tax systems in Kenya?

Based on the data obtained, 8.9% strongly disagreed while 1.8% disagreed on being aware of the existence of online tax systems. 5.4% of the respondents were neutral, 33.9% agreed that they were aware of the online tax systems while 50% strongly agreed.

4.3.2 Have you ever used online tax systems?

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Frequency	12	3	2	15	24	56
Percent	21.4	5.4	3.6	26.8	42.9	100

Table 16: Have you ever used online tax systems?

Based on the data collection, 21.4% of the respondents strongly disagreed on using online tax systems, 5.4% disagreed, 3.6% were neutral, 26.8% agreed and 42.9% strongly agreed that they had used online tax systems while paying taxes.

4.3.3 Have you undergone any training relating to online tax systems?

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Frequency	25	7	5	6	13	56
Percent	44.6	12.5	8.9	10.7	23.2	100

Table 17: Have you undergone any training relating to online tax systems?

Based on the data collection, 44.6% of the respondents strongly disagreed on receiving any training relating to online tax systems, 12.5% disagreed on receiving training, 8.9% were neutral, 10.7% agreed while 23.2% strongly agreed on receiving training. Some stated that they have received training at their place of work by their workmates while some trained by KRA officials.

4.3.4 Has the introduction of online tax systems in Kenya improved your compliance status?

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Frequency	15	2	5	15	19	56
Percent	26.8	3.6	8.9	26.8	33.9	100

Table 18: Has the introduction of online tax systems in Kenya improved your compliance status?

26.8% of the respondents strongly disagreed that the introduction of online tax systems had improved their compliance status, 3.6% disagreed, 8.9% were neutral, 33.9% agreed while 33.9% strongly agreed that the introduction of online tax systems had improve their tax compliance status.

4.3.5 Would you describe i-Tax platform as user friendly?

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Frequency	12	4	9	15	16	56
Percent	21.4	7.1	16.1	26.8	28.6	100

Table 19: Would you describe i-Tax platform as user friendly?

21.4% of the respondents strongly disagreed that i-Tax platform is user friendly, while 7.1% of the respondents disagreed, 16.1% were neutral, 26.8% agreed while 28.6% strongly agreed on the user friendliness of i-Tax.

4.3.6 Have you registered as an i-Tax user?

	Frequency	Percent
No	16	28.6
Yes	40	71.4
Total	56	100

Table 20: Have you registered as an i-Tax user?

28.6% of the respondents had not registered as i-Tax users while 71.4% of the respondents had registered as i-Tax users.

4.4 To determine the benefits of online tax systems

This is important to the study as it acts as a motivation to other SMEs who have not yet adopted the online tax systems. They get to see the benefits that come with adopting the online tax systems and they will desire to enjoy the same benefits too.

4.4.1 Has introduction of i-Tax platform improved security of your personal information?

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Frequency	13	3	14	13	13	56
Percent	23.2	5.4	25	23.2	23.2	100

Table 21: Has introduction of i-Tax platform improved security of your personal information?

The response obtained from the data collection showed that 23.2% of the respondents strongly disagreed that the introduction of i-Tax had improved security of their personal information, 5.4% disagreed, 25% were neutral, 23.2% agreed while 23.2% strongly agreed.

4.4.2 Has introduction of i-Tax increased the accuracy in filing returns?

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Frequency	11	5	8	14	18	56
Percent	19.6	8.9	14.3	25	32.1	100

Table 22: Has introduction of i-Tax increased the accuracy in filing returns?

19.6% of the respondents strongly disagreed that the introduction of i-Tax increased the accuracy in filing returns, 8.9% disagreed, 14.3% were neutral, 25% agreed while 32.1% strongly agreed.

4.4.3 Is i-Tax platform easier to use as compared to the manual way of filing returns?

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Frequency	10	2	10	16	18	56
Percent	17.9	3.6	17.9	28.6	32.1	100

Table 23: Is i-Tax platform easier to use as compared to the manual way of filing returns?

The respondents compared which is easier between using online tax systems and the manual way of filing. 17.9% of the respondents strongly disagreed that i-Tax is easier to use, 3.6% agreed, 17.9% were neutral, 28.6% agreed while 32.1% strongly agreed.

4.4.4 Does use of i-Tax platform save on time as compared to manual systems?

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Frequency	9	2	9	13	23	56
Percent	16.1	3.6	16.1	23.2	41.1	100

Table 24: Does use of i-Tax platform save on time as compared to manual systems?

16.1% of the respondents strongly disagreed that introduction of i-Tax enabled one to save on time, 3.1% disagreed, 16.1% were neutral, 23.2% agreed and 41.1% strongly agreed on i-Tax platform assisting in saving time. The respondents who strongly disagreed and disagreed were

mostly those who have not adopted the use of i-Tax. Those who were neutral were those who had either not adopted the use of online tax systems or had never used the manual tax systems hence unable to compare the two.

4.4.5 Is i-Tax system of self-assessment beneficial to you as a taxpayer?

	Frequency	Percent
No	20	35.7
Yes	36	64.3
Total	56	100

Table 25: Is i-Tax system of self-assessment beneficial to you as a taxpayer?

The respondents were required to state whether they perceived i-Tax platform as beneficial and 35.7% of the respondents said that it was not beneficial in any way while 64.3% of the respondents said that the system is beneficial to them. Majority of the respondents who stated that i-Tax system was not beneficial to them were those that had never used the online tax systems.

4.5 To determine the challenges of online tax systems.

This section is important to the research, as it will enable KRA and the government to know why some enterprises are not registering as i-Tax users nor using the system. This will therefore put the two in a position where they are able to make amendments to rectify the situation and eliminate some of the challenges.

4.5.1 Is i-Tax platform understandable?

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Frequency	9	1	16	15	15	56
Percent	16.1	1.8	28.6	26.8	26.8	100

Table 26: Is i-Tax platform understandable?

16.1% of the respondents strongly disagreed on the understandability of i-Tax, 1.8% disagreed, 28.6% were neutral, 26.8% agreed and the remaining 26.8% strongly agreed. Those who were of the view that i-Tax platform was understandable were mostly individuals in the Finance and Accounting sector and the literate ones.

4.5.2 Is there adequate supply of electricity?

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Frequency	9	1	4	14	28	56
Percent	16.1	1.8	7.1	25	50	100

Table 27: Is there adequate supply of electricity?

16.1% of the respondents strongly disagreed on there being adequate supply of electricity, 1.8% disagreed, 7.1% were neutral, 25% agreed while 50% strongly agreed on there being adequate supply of electricity.

4.5.3 Are there any delays or malfunctions on the system when filling returns?

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Frequency	13	8	18	11	6	56
Percent	23.2	14.3	32.1	19.6	10.7	100

Table 28: Are there any delays or malfunctions on the system when filling returns?

23.2% of the respondents strongly disagreed on there being malfunctions in the i-Tax platform when filing returns, 14.3% disagreed, 32.1% were neutral, 19.6% agreed while 10.7% strongly agreed on there being malfunctions and delays. Those who complained of delays admitted to filing on the deadline date.

4.5.4 Is the process of filing returns too lengthy?

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Frequency	20	11	11	7	7	56
Percent	35.7	19.6	19.6	12.5	12.5	100

Table 29: Is the process of filing returns too lengthy?

35.7% of the respondents strongly disagreed on the process of filing returns being too lengthy, 19.6% disagreed, 19.6% were neutral, 12.5% agreed while 12.5% strongly agreed that the process was too lengthy.

4.5.5 Can filing returns be done via mobile phone?

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Frequency	21	7	14	10	4	56
Percent	37.5	12.5	25	17.9	7.1	100

Table 30: Can filing returns be done via mobile phone?

37.5% strongly disagreed on the possibility of filing returns through the phone, 12.5% disagreed, 25% were neutral, 17.9% agreed while 7.1% strongly agreed that they were able to file returns through their mobile phones.

4.5.6 Have there been complexities in using i-Tax system?

	Frequency	Percent
No	36	64.3
Yes	20	35.7
Total	56	100

Table 31: Have there been complexities in using i-Tax system?

64.3% of the respondents stated that there were no complexities in using the i-Tax system while 35.7% said that there were complexities.

4.5.7 Do you file your own returns?

	Frequency	Percent
No	30	53.6
Sometimes	2	3.6
Yes	24	42.9
Total	56	100

Table 32: Do you file your own returns?

53.6% of the respondents stated that they do not file returns on their own, they involve a third party, while 3.6% said that they file their own returns sometimes and when they are too busy they involve a third party. 42.9% of the respondents stated that they file their own returns.

4.6 Extent of adoption according to KRA

Based on the KRA official website, a press release issued by the Deputy Commissioner, Marketing and Communication on 1/07/2019 stated that there was an improvement of more than four hundred thousand taxpayers filing their returns in the period ending 30/6/2019. The total number of taxpayers who filed their returns was more than 3.6 Million. This improvement was attributed to the efficiency of i-Tax system. Another improvement brought about by the use of i-Tax was a reduction of long queues in the KRA offices as had been previously experienced.

4.7 Establishing the relationship between the dependent and independent variables

In establishing the relationship between the dependent and independent variables, the study analysis enables us to know if there is a relationship between the variables, if the relationship is positive or negative and if the relationship if strong or weak.

The dependent variable in this research is tax compliance while the independent variables are Computer literacy and proficiency among SME managers; SME managers' knowledge of online tax systems and Extent of adoption of online tax systems according to KRA, benefits and challenges of the systems.

4.7.1 Determining the relationship between tax compliance and computer literacy of SME managers

Correlations

		Have you ever used online tax systems?	Have you taken any computer course in a learning institution?
Have you ever used online tax systems?	Pearson Correlation	1	.573**
	Sig. (2-tailed)		.000
	N	56	56

Have you taken any computer course in a learning institution?	Pearson Correlation	.573**	1
	Sig. (2-tailed)	.000	
	N	56	56

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

The significance level is below 0.5, showing that a sample size of 56 is statistically significant. Tax compliance and computer literacy of the respondents is therefore has a strong positive correlation.

4.7.2 Determining the relationship between tax compliance and managers' knowledge of online tax systems

Correlations

		Have you ever used online tax systems?	Are you aware of the online tax systems in Kenya?
Have you ever used online tax systems?	Pearson Correlation	1	.515**
	Sig. (2-tailed)		.000
	N	56	56
Are you aware of the online tax systems in Kenya?	Pearson Correlation	.515**	1
	Sig. (2-tailed)	.000	
	N	56	56

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

There is a weak positive relationship between tax compliance and managers' knowledge of online tax systems. This shows that although tax compliance increases with increased knowledge of managers on online tax systems, the increase is not significant.

4.7.3 Relationship between tax compliance ease of use of online tax systems

Correlations

		Have you ever used online tax systems?	Is i-Tax platform easier to use as compared to the manual way of filing returns?
Have you ever used online tax systems?	Pearson Correlation	1	.658**
	Sig. (2-tailed)		.000
	N	56	56
Is i-Tax platform easier to use as compared to the manual way of filing returns?	Pearson Correlation	.658**	1
	Sig. (2-tailed)	.000	
	N	56	56

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

There is a strong positive relationship between ease of use of online tax systems and tax compliance. This means that tax compliance increases significantly with the increased ease of use of the online tax systems.

4.7.4 Relationship between tax compliance and delays/malfunctions on i-Tax platform

		Have you ever used online tax systems?	Are there any delays or malfunctions on the system when filing returns?
Have you ever used online tax systems?	Pearson Correlation	1	.406**
	Sig. (2-tailed)		.002
	N	56	56
Are there any delays or malfunctions on the system when filing returns?	Pearson Correlation	.406**	1
	Sig. (2-tailed)	.002	
	N	56	56

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

There is a weak positive relationship between tax compliance and delays and malfunctions in the online systems. Delays and malfunctions in the online tax systems affects tax compliance but to a small extent.

CHAPTER 5: Conclusion

5.1 Introduction

This chapter contains a summary of the findings, the conclusions and recommendations obtained from the whole research.

5.2 Summary of findings

On reviewing the study, the general trend discovered was that more established SMEs such as real estate companies, insurance companies, automobiles are users of online tax systems and they are tax compliant. Less established SMEs such as retail shops; Mpesa operators, hardware and salons only paid for county government business permits but did not pay taxes. Most of the businesses have been in operation for more than one year, which shows that the number of years that SMEs have been in operation does not determine nor affect the probability of adopting online tax systems.

Majority of the owners and employees of the SMEs had taken a computer course, which shows that majority of the individuals operating and running the SMEs are computer literate. Majority of them were also up to date with the trends in technology as well as frequent users of the internet. Most of the respondents had received training on a variety of application software such as MS Excel, MS Word, QuickBooks, SAGE RASTEL, Point of Sale, C+, AUTOCAD, T24 System, Access, Tecdok, and EPC.

Majority of the respondents rated their computer literacy skills at average, as they were able to do what was required of them using computers although they could not classify themselves as IT gurus. Almost all the respondents were aware of the online tax systems in Kenya although not all who were aware adopted and used the system. Some respondents felt that i-Tax system was not user friendly, some were not sure of their stand, therefore being neutral as they let others file their returns example cybers. Some felt that i-Tax system was user friendly. Majority of those who were of this view were professionals in the finance and accounting sector or had received training on how to use the online tax systems either by the KRA officials or informally by their friends and co-workers.

Most of the respondents had registered as i-Tax users. The registered users felt that the introduction of i-Tax had increased the accuracy in filing returns and was easier to use and more time efficient as compared to the manual way of filing returns.

5.3 Conclusion

The fact that only established SMEs are the ones that adopt the use of online tax systems shows that the system is more suitable for the literate segment of the population. This explains the non-registration of individuals operating small shops such as retail shops, wholesale shops and Mpesa shops. There has been a great improvement in the adoption of online tax systems as seen in the press release made by the Deputy Commissioner, Marketing and communication of KRA.

A strong positive relationship exists between tax compliance and computer literacy, which means that by increasing the computer literacy skills of individuals, their tax compliance status will improve too. There is a weak positive relationship between knowledge of the existence of online tax system and tax compliance. Therefore, being aware of the existence of online tax systems does not guarantee adoption by taxpayers. There is a strong positive relationship between the ease of use of i-Tax and tax compliance. Therefore, easier it is to use i-Tax system, the more the tax compliance status of individuals will improve.

There is a weak positive relationship between tax compliance and presence of delays and malfunctions in the system when using the online tax systems platforms. This is because malfunctions and delays usually happen on the deadline when most of the taxpayers are filing their returns, hence an overload in the system.

5.4 Recommendation

The government should focus on introducing computer studies from an early stage in schools. This will ensure that individuals gain an interest and knowledge of computers from a young age. This will reduce computer illiteracy levels in Kenya over time. It will be beneficial due to the strong positive relationship between tax compliance and computer literacy of individual.

The KRA officials should make an effort to go to the enterprises offices and train those who run them, on the use of i-Tax. Out of the 56 respondents, only one enterprise had received training from the officials. Through training, the officials will be able to interact with the SMEs and show them the importance of paying taxes.

KRA should put resources into making the online tax systems platforms easy to use and understandable. If i-Tax platform is complicated, most individuals will be demotivated, as they would rather put that energy and time into their work rather than on filing returns.

Taxpayers should file their returns on time. A bigger percentage of taxpayers filing returns on the deadline results in an overload of the system. This leads to some individuals not being able to file on time hence attracting penalties and fines.

KRA should come up with a way of ensuring that even the small traders file returns. The could do this by joining hands with the county government offices to ensure that on getting a business permit, an individual needs to have registered as an i-Tax user prior. This will be effective since, all SMEs had business permits but not all were registered i-Tax users.

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Appendix: Sample questionnaire filled by SMEs

Section (a): General Information

1. What industry is your company in?

Manufacturing	
Agricultural	
Hospitality	
Transport	
Mining	
Farming	
Advertising	
Education	
Real Estate	
Information Technology	

If other not mentioned, specify----------

2. How long has the company been operating?
   (a) Less than 1 year
   (b) 1-5 years
   (c) More than 5 years
3. How many employees does the company have?
   (a) Less than 5
   (b) 5-10 employees
   (c) 10-20 employees
   (d) More than 20 employees
4. Does your company have branches?
5. How long have you been working in the company?
   (a) Less than 1 year
   (b) 1-3 years
   (c) More than 3 years
6. What is your position in the company?

Section (b): To determine computer literacy levels of Managers

		Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
1	Have you taken any computer course in a learning institution?					
2	Are you up to date with the trends in technology?					
3	Do you often use the internet?					
4	Are there training programs in place to enhance your IT skills?					
5	Are your subordinates learning from you? (from an IT perspective)					

Have you had training in at least one application software? If yes, which one?----------

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How would you rate your computer literacy skills? Why?----------

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Section (c): To determine managers' knowledge of online tax systems

		Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
1	Are you aware of the online tax systems in Kenya?					
2	Have you ever used online tax systems?					
3	Have you undergone any training (formal or informal), with regards to online tax systems?					
4	Has the introduction of online					

	tax systems in Kenya improved your compliance status?					
5	Would you describe the i-Tax platform as user friendly?					

Have you registered as an i-Tax user? When?----------

Have you received any form of training on the use of i-Tax? (State where you received the training from). ----------

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Section (d): To determine the benefits of online tax systems

		Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
1	Has introduction of i-Tax platform improved security of your					

	personal information?					
2	Has introduction of i-Tax increased the accuracy in filing returns?					
3	Is i-Tax platform easier to use as compared to the manual way of filing returns?					
4	Does use of i-Tax platform save on time as compared to manual systems?					

Is i-Tax system of self-assessment beneficial to you as a taxpayer? Yes… No… If yes, explain how----------

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Does the use of i-Tax system help you save on time and money? Explain----------

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Section (e): To determine the challenges of online tax systems

		Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
1	Is the i-Tax platform understandable?					
2	Is there adequate supply of electricity?					
3	Are there any delays or malfunctions on the system when filing returns?					
4	Is the process of filing returns too lengthy?					
5	Can the filing be done via mobile phone?					

Have there been complexities in using i-Tax system? Yes... No... If yes, state at least one----------

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Do you file your own your own returns or do you involve a third party? Why?----------

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Thank you for your cooperation!