

**EFFECT OF (iTax) SYSTEM ON TAX COMPLIANCE IN KENYA: A CASE
STUDY OF SELECTED LARGE TAXPAYERS IN KENYA**

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DECLARATION

This thesis is my original work and has not been presented to any university for academic award.

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DEDICATION

I also dedicate this research proposal to my family. My daughter Shavonne and son Shayne for their support and bearing with me during this process. To Woun Marto, thanks for reminding me to finish this paper. My parents through their support and motivation has pushed me this far.

I will remain forever grateful!

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ABSTRACT

The objective of this study was to examine the effect of iTax system on tax compliance levels in Kenya. The specific objectives that guided this particular study include: to investigate the effect taxpayer identification and registration on tax compliance in Kenya, to investigate the effect of verifying taxpayer's liabilities on tax compliance in Kenya, to establish the effect of enforcement of tax law on non-compliant taxpayers on tax compliance in Kenya and to analyse the effect of reporting and statistics on compliance in Kenya. The study was carried out at Kenya Revenue Authority Domestic taxes department in Nairobi-Large taxpayers Office. The research problem was solved using descriptive survey design. The main source of data was primary data. The study population comprised mainly 1.238 large taxpayers. In this study a sample size of 10% was selected because it was considered reasonable enough for any study. As a result, a sample size of 62 was arrived at. Presentation of the analysed data was done in form of tables, charts, and graphs so as to help provide a clear understanding and interpretation of the study findings. The tables provided summarized research data derived from the questionnaires. The study also revealed that tax compliance is influenced by taxpayer registration (beta, 0.528), verification (beta, 0.461), enforcement (beta, 0.549) as well as reporting (beta, 0.603). The study concludes that tax compliance in Kenya is influenced by taxpayer registration, taxpayer verification, taxpayer enforcement and taxpayer reporting. Additionally the study concludes that reporting is the highest influencing factor when it comes to tax compliance followed by enforcement, registration and then taxpayer verification. The study recommends that KRA needs to enhance compliance levels by focusing on taxpayer registration and verification. Additionally KRA needs to focus on taxpayer enforcement so as to enhance tax compliance. Finally KRA needs to enhance taxpayer education so as to increase taxpayer attitude towards tax compliance.

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ACRONYMS

CEO	:	Chief Executive Officer
ICT	:	Information Communication Technology
KRA	:	Kenya Revenue Authority
SPSS	:	Statistical Package for Social Scientists
USA	:	United States of America

CHAPTER ONE:

INTRODUCTION

1.1 Background of the Study

Governments require all persons in the respective jurisdiction have the obligation to pay taxes as set out in the Tax laws of every country (Lee, 2015). It is the duty of persons to be tax compliant in order for them to be considered as being tax compliant by the authorities mandated to enforce given tax laws. Persons who do not declare their taxable activities and end up failing to pay the requisite taxes are considered to be non-compliant and therefore every jurisdiction has set out ways of dealing with such persons.

The rapidly increasing pace of technological change will have a significant impact, positive and negative, direct and indirect, on tax compliance. Information technology, which includes telecommunications and computerized systems, looks set to increase tax processes substantially, with savings in time as well as money, while at the same time affording customers a better service. On the other hand, the human element is affected by technological changes in different ways, by making jobs more important for some, while posing a threat to others (Lee, 2015). All the tax information systems and data bases should be integrated and have available the tools required to combat tax non-compliance; facilitate tax compliance and satisfy information requirements at the operational and internal control levels for the effective management of a modern Tax Administration (CIAT Handbook for Tax Administrations - July 2000). There are a number of methods employed today by tax agencies to capture tax return and payment data electronically.

Enforcement of tax laws has been made easy with the entry of new technology which has specifically been designed to assist various authorities to implement tax laws (Cobham, 2015). In Kenya for instance there has been a continuous effort by the Kenya Revenue

Authority (KRA) to develop technology that aids in the administration as well as the enforcement of tax laws. This study focused on the latest technology iTax which has been implemented in the recent past with the main of enhancing effective administration and enforcement of tax laws in Kenya. Kenya Revenue Authority has set out the main objective of this system as being compliance enhancement as well as increasing efficiency in the collection of taxes (Chege, Kiragu, Lagat & Muthoni, 2015).

In relation to the impact of registration and tax compliance Fauvelle-Aymar (2016) was interested in examining the relationship between taxpayer registration and compliance and revealed that indeed there was a positive significant relationship between taxpayer registration and tax compliance. His study made recommendations to the government policy makers to ensure that they develop policies on assessment of the possible implication of registration on tax revenues so as to enhance compliance (Fuest & Riedel, 2013).

On the other hand, taxpayer liabilities verification is the act of providing checks to see how much taxpayers are supposed to pay in lieu of their various obligations as well as verifying if indeed what is owed by them is what has been declared by the taxpayers through self-assessment (Kaufmann, 2014). To achieve full compliance on tax there has to be a way of verifying a taxpayer's income and expenditure. This requires more than a mere checking of a taxpayer's books and records. There are direct and indirect methods of verifying the taxpayer's liability. Direct methods rely upon verification of income or expenses especially with regards to the various accounting records or books of accounts which normally taxpayers are required to use whenever they declare their tax returns (Fjeldstad, 2013).

Similarly, enforcement of tax laws has been made easy with the entry of new technology which has specifically been designed to assist various authorities to implement tax laws (Moore, 2014). In Kenya for instance there has been a continuous effort by the Kenya Revenue Authority (KRA) to develop technology that aids in the administration as well as the enforcement of tax laws. This study focused on the latest technology iTax which has been implemented in the recent past with the main of enhancing effective administration and enforcement of tax laws in Kenya (Ranguma & Mosioma, 2012).

Reports and statistics on the other hand, are a very good way of presenting taxpayer information to show the correct position of the taxpayer with regards to the registration details, returns, payments as well as compliance status. Taxpayer reports can be presented at every given interval, these can be done daily, weekly, monthly quarterly and yearly basis depending on when they are needed and for what purpose (Njogu, 2017).

The iTax system came into operations from the year 2011 to replace the ITMS system which was previously being used by KRA. This platform therefore makes it possible for taxpayers to easily register their personal details and also file their respective returns, make payment while also monitoring their ledgers and accounts at any given time and from the comfort of their homes or office without necessarily having to make regular visits to KRA offices whenever their tax obligations fall due. The system was also developed to help the authority to wipe brokers who swindle and take advantage of ignorant taxpayers, while also providing an enabling environment for the agency to reduction on matters taxation because taxpayers can fill their returns offline and upload at their own convenience. iTax further allows taxpayers to get a unique password through their personal identification numbers, once they have updated their details on the website

and taxpayers can also be able to view their payment status on areal time basis (Wanjohi, 2018).

The iTax platform also makes it possible for taxpayers to ascertain if their money has been remitted to KRA given that the platform has been developed in such a way that it can be generate payment slips to show that indeed the taxpayer has paid for that the sums of money required of him or her. The iTax platform has also made it possible for employees to confirm if the amounts that are deducted every month as pay as you earn tax have been remitted by employer to KRA. This study was very much interested in examining if indeed the adoption of the iTax system has enhanced taxpayer compliance with specific consideration on large taxpayers who were the first group to be compelled to adopt the use of iTax.

1.1.1 Tax Compliance

Tax compliance is defined as the full payment of all taxes due Persson, 2013 Tax noncompliance is referred to as any difference between the actual amount of taxes paid and the amount of taxes due. This difference occurs because of overstating and understating income, expenses, and deductions. Non-compliance comprises both intentional evasion and unintentional non-compliance, which is due to calculation errors and an inadequate understanding of tax laws (Waweru, 2014).

According to Yitzhaki (2012), taxpayer's mistakes can be unintended and thus, do not necessarily represent attempts to evade or may even lead to tax over reporting. According to Ojeka (2012) tax compliance is the timely filling and reporting of required tax information, the correct self-assessment of taxes owed, and the timely payment of those taxes without enforcement action. From this definition, there are three dimensions of tax compliance: filing, reporting, and payment compliance. Filing compliance refers to

whether the taxpayer submitted the correct forms to the revenue authority. Reporting compliance refers to whether the return was accurate, while payment compliance refers to whether the taxpayer paid his/her reported tax liability in a timely manner. Therefore, a taxpayer would be called non-compliant if the three dimensions are not properly accomplished.

Getting citizens to pay their taxes painlessly without hissing has been the dream of all governments. The task has however, never been simple, until the introduction of the modern information technology. Since the early 1980s the world has experienced an unprecedented pace of advancement in the field of information technology. These technological innovations are having a profound impact on the administration of fiscal systems and the way in which taxation is administered (Aumeerun, Jugurnath & Soondrum, 2016). Tax compliance is mainly achieved when majority of taxpayers voluntarily file their tax returns and pay resultant tax liabilities as stipulated in the tax laws, without the intervention of the tax authorities through enforcement. However, if the voluntary compliance is low, then enforcement measures like audit and collection are resorted to. Tax compliance has been extensively reviewed (Alm & Schulze, 2016). Three theoretical perspectives have been used to explain and measure the degree of tax compliance, namely economic models, uncertainty models, norms of compliance models and inertia models (Misra, 2014).

Economic models explain that taxpayers' main goal is to maximise their financial taxes whenever the benefits from tax delinquency outweigh the risk of detection and punishment. On the other hand, uncertainty models extend the work of economic models. While retaining the assumption that rational taxpayers seek to maximize their financial interests, adherents to this model point out that in the real-world information about

penalty provisions and the risk of audit is imperfect. Finally, norms of Compliance models explain that standards of taxpayer behaviour are influenced by the tax culture.

In developing countries, the income tax compliance has been constrained by the significant number of changes to the tax laws, that are now so complex and only a handful of tax experts can understand them. This creates additional problems for compliance by taxpayers who do not have access to sophisticated tax specialists (Muiru, 2012). Moreover, enforcement of these laws cannot reduce non-compliance among taxpayers because some tax measures put small and medium taxpayers under severe liquidity pressure, forcing many to fold in the informal sector (Alm & Schulze, 2016).

Theoretically, views of the taxpayers and tax collectors are that tax compliance means adhering to the tax laws, which are different from one country to another. The goal of tax administration is to foster voluntary' tax compliance (Aksnes, 2014) and hence reduce tax gap (difference between taxes paid and owed for all taxes and all taxpayers) and "compliance gap." Tax compliance, according to Becker (2015)), is a problem to many countries as measured by tax to GDP ratio although it has been improving for many countries. For example, its one-third of GDP in rich countries; Latin America and the Caribbean - 17% of GDP and low-income countries (in Sub Saharan Africa) showed less than 15% to GDP (the recommended rate). It remains a big challenge to low income countries. This has promoted radical tax reforms in countries like Bolivia. Uruguay, Colombia. Jamaica and Spain with notable success (Cowell, 2013).

Waweru (2014) listed 14 main factors that have influenced tax compliance as discussed by various researchers. These factors are age. gender, education, income, occupation or status, peers' or other taxpayers' influence, ethics, legal sanction, complexity, relationship with taxation authority (IRS), income sources, perceived fairness of the tax system,

possibility of being audited and tax rate. Various researchers have listed factors that influenced tax compliance such as demographic, 2 income, compliance cost, and tax agents (Becker, 2015). In addition to moral or ethical factors (Kaufmann, 2014). Other researchers (Tauy & Guvenc, 2012; McKerchar & Evans, 2013) listed enforcement element factors (such as penalty, audit, and tax rates) as having a great influence on tax compliance behaviours. Tax compliance behaviours of a taxpayer usually differ from the compliance behaviours estimated in economics models. Taxpayers are greatly influenced by other taxpayers. Besides, the rate and quality of audit will also influence tax compliance behaviours of a taxpayer (Persson, 2013). Tax compliance problem is also serious in other countries. For instance, of the 117 million Income Tax Forms returned in the US in April 1995, 8.3 percent had not accurately declared their tax liabilities. In addition. 7 million, or 5.6 percent did not return the Income Tax Form (Karingi, 2015)

1.1.2 Kenya Revenue Authority

Kenya Revenue Authority (KRA) was made in the year 1995 through the Act of parliament, with a referencing for relationship of tax in Kenya. The standard clarification behind setting up KRA was to guarantee that the authority helps in the assessment, get-together, association and supporting of tax laws with cleaned limit tended to by uprightness and reasonableness. KRA is maneuvered once more into different divisions, for example, Customs Services Department, Domestic Taxes Department, and Support Services Department. KRA controls various sorts of taxes under various Laws (Acts, for example, Income Tax, Value Added Tax, Custom responsibilities and Excise Tax among different others.

Domestic taxes department is further divided into three segments namely: Large Taxpayers office (LTO), Medium Taxpayer Office (MTO) and Medium and Small and Taxpayers office (MST) which has stations spread across the country. In this study the

focus was on the Large Taxpayers Office (LTO) given that this was the first department to be compelled to adopt the iTax platform. Taxpayers in this category have a turnover of 1 billion and above.

1.1.3 Role of the Kenya Revenue Authority on Tax Compliance

In the bid to educate both existing and potential taxpayers, the Kenya Revenue Authority has a unit known as Taxpayer Services (K.R.A. 2011). The unit endeavours to conduct education programs for individuals and businesses that will cover basic information with respect to all taxes; issue simplified publications that contain information on all taxes administered by KRA: issue media releases and compliance publications that explain new procedures and requirements in a simplified manner; and increase interaction with stakeholders, business and professional associations in order to obtain their opinion, regarding the quality of our services with a view to further improvement (K.R.A. 2013). The main objectives of the unit are to educate taxpayers on their rights and obligations and to create tax awareness so as to enhance voluntary compliance with the tax laws; as well as. to broaden the tax base and widen the tax net by recruitment of taxpayers through education. 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, 2011).

The purpose of Kenya Revenue Authority is assessment, collection, administration and enforcement of tax laws with professionalism governed by integrity and fairness (C1AT). To achieve this purpose. KRA is divided into regions such as North Region, Rift Valley Region. Western Region, Southern Region and Central Region and departments such as Customs Services Department, Domestic Services Department, Road Transport Department and Support Services Department. KRA administers different types of taxes

under different Laws (Acts) such as Income Tax. Value Added Tax. Custom duties and Excise Tax among many others. Hence. KRA is supposed to ensure taxpayers comply with the respective tax laws (Griffiths, 2015).

1.2 Problem Statement

The need for improved efficiency and accountability in taxation systems has heightened the clamor for modernization of tax systems across the globe, hence the increased adoption of electronic tax administration systems. Electronic tax systems such as iTax, are computer-based revenue collection platforms that do away with the need for manual registration, filling and processing of tax returns, refund and other tax related services. Their ultimate goal is to increase revenue collection through reducing costs associated with compliance and minimizing tax leakages. They are designed to reduce physical contact between the tax administrator and the tax payer in order to achieve the desired effect of reducing corruption. KRA achieved country wide rollout of the iTax system in 2014, with the expectations of leveraging on this vital technology in eliminating its revenue deficits. Despite the introduction of iTax, KRA still continues to post revenues short of the treasury targets. In the financial year 2017/2018 the authority collected exchequer revenue of Kshs. 1022 billion against the treasury target of Kshs. 1,065.8 billion (KRA, 2019]

There are a number of studies that have been done on factors influencing compliance in Kenya. One of the studies is a study carried out to examine the factors influencing taxpayers' voluntary compliance among local authorities. This study was carried out by Karingi (2015). More recently, Muiru (2012) examined how the taxpayers' attitudes influence compliance behaviour among SMEs while Griffiths (2015) examined how ETR influences VAT compliance among SMEs. While these studies make an attempt to

identify what factors influence tax compliance, there is need to look at iTax and how its innovation has affected tax compliance in Kenya. In this regard therefore this particular makes a proposition on a question that iTax could help reduce current tax compliance challenges? This is the main reason as to why this study sought to examine the effects of iTax on tax compliance in Kenya.

1.3 Purpose of the Study

The main purpose of this study was to examine the effect of iTax system on tax compliance levels in Kenya.

1.4 Objectives

The research specific objectives for this study were:

- i. To establish the effect taxpayer registration on tax compliance in Kenya
- ii. To what extent does the taxpayers liabilities verification affect tax compliance in Kenya
- iii. To study the effect of tax law enforcement on non-compliant taxpayers on tax compliance in Kenya
- iv. To determine the effect of reporting and statistics on compliance in Kenya

1.5 Research Questions

- i. To what extent does taxpayer registration influence compliance in the selected taxpayers in Kenya?
- ii. How does tax law enforcement on non-compliant taxpayers affect tax compliance in the selected taxpayers in Kenya?
- iii. To study the effect of tax law enforcement on non-compliant taxpayers on tax compliance in Kenya?

- iv. To what extent does taxpayer's reports and statistics affect tax compliance taxpayers on tax compliance in Kenya?

1.6 Significance of the Study

The findings of this study will provide the Kenya Revenue Authority with useful information as to the factors influencing the acceptance and use of iTax by taxpayers in Nairobi County. In addition, the recommendations suggested in the study will be critical to KRA in making improvements to the iTax platform.

The study shall be of help to the Ministry of finance through treasury so as to formulate policies that shall address issues of non-compliance and challenges that may hinder tax compliance and positive uptake and use of iTax. The utilization the recommendations made in this study by various stakeholders in the ministry will be beneficial in enhancing the Tax reform agenda. The study will be beneficial to researchers and academicians as well as scholars in the area of taxation as it will provide empirical material that will guide further research in this area.

1.7 Limitations of the Study

The research was conducted in large taxpayers only. This means the whole population was not involved in the study. The section may not be enough for the researcher to observe all issues under research about tax compliance it could be better if it were a larger searcher to the population of the experimental group is small and this might not represent the majority of the entire population.

The research gathered information mostly using questionnaires. The questionnaire captured much of the information given by the respondents but not all. During data analysis, the researcher may be biased or there shall be some subjectivity. The

respondents were encouraged to give information freely as it was to be used for the purpose of this academic paper only and any information provided will be treated with confidentiality. The researcher also showed the respondents the introduction letter from Kenya Methodist University.

1.8 Scope of the Study

In terms of content scope the study was limited to factors affecting taxpayer compliance and specifically so how the implementation of the iTax system has affected taxpayer compliance. In terms of geographical scope, the study will be carried out at Kenya Revenue Authority Large Taxpayers Office department in Nairobi.

The population in this category is 1238 taxpayers from the Large Taxpayers Office (LTO). The study utilized management, technical, supervisory, and support staff of the corporation widespread within the organization and every department or section. The study took place between May 2018 and August 2018.

1.9 Assumptions of the Study

It is assumed that all selected four firms in Kenya would be accessible during the period of study and that respective head of firms would be willing to openly share and discuss information sought. The study had an assumption that the findings can be replicated in other sectors such as medium taxpayers as well as small taxpayers in Kenya

1.10 Definition of Terms

iTax: This is a web enabled system that enables the taxpayer file returns, make payments and monitor their profiles online.

Tax Compliance: Taxpayer compliance is basically a voluntary activity; it means therefore that the onus lies with taxpayer to ensure that he or she remains truthful to what is required of them and to ensure that they comply with the law (Kirchler, 2014).

PIN: This is a personal identification number, a number that is unique and assigned by KRA to a specific person. The number cannot be shared because it is the unique identity of the taxpayer.

Large Taxpayer: Large taxpayers are those who are in the category that exceeds Kenya shillings seven and fifty million (KRA, 2015).

Taxpayer Registration: This is the process of identifying all registrable persons in Kenya, assigning them a PIN number which is system generated.

Taxpayer's Liabilities: This is the total money in Kenya shillings that the taxpayer owes to KRA

Taxpayer's Liabilities Verification: This is the process of ascertaining whether the taxpayer has declared all the income earned and if all expenses claimed by the taxpayer were incurred to generate the income declared.

Taxpayer's Reports and Statistics: This is the data that can be generated from iTax to help. It helps do analysis of taxpayers' compliance trends and submission of reports.

CHAPTER TWO :

LITERATURE REVIEW

2.1 Introduction

This chapter is concerned with the review of literature. The chapter begins with a theoretical review where a number of theories that explain tax behaviour among individuals are discussed in length. These are the theories that will be tested in the present study to check if they explain non-compliance. An empirical review is then provided where previous studies on the factors influencing tax compliance are presented and discussed.

2.2 Theoretical Literature

This study will adopt three theories as follows: (1) economic deterrence (2) social influences; and (3) Theory of constraints.

2.2.1 Allingham and Sandom Model

This model was theorized by Backer in 1968 and was later developed in 1972 by Allingham and Sandom and the model of tax compliance come into lame light. This model indicates that tax payer is always assumed to have an income and must decide on the part of the income to submit to the tax agency (Aumeerun et al., 2016).

Declared income or revenue is taxed at a given rate by government agencies while undeclared tax is not subjected to any tax but the taxpayer will be exposed to a probability that being detected at given point which will be impose the taxpayer to a given fine. There are two strategies that the taxpayer can choose that is true declaration of his revenue or income or he can decide to declare less than the actual income he earns. But regardless of the choice will all depend on whether the tax authorities will one day investigate the tax payer. If the investigation is conducted and the taxpayer is found to be culpable he will be heavily fined by the tax authorities (Chege et al., 2015).

According to this model the declared income depends upon income or revenue, audit rate and tax rate. According to Alm, Jackson and McKee cited in Aumeerun et al., (2016) other factors that affect and determine tax compliance decision or evasion is what the government takes from the tax payer, the individual perception of benefits of taxes. This theory informed Tax compliance level variable.

2.2.2 Institutional Anomie Theory

This theory emerged in the mid-1990s and it was first used in the book authored by Messner and Rosenfeld in 1994. According to Messner and Rosenfeld (2017) institutional arrangement where the economy is allowed to dominate without proper guidelines the society will be particularly criminology. The theory also stipulates that humans make decision based on social values which separately may contradict. When an individual hold believes in imbalanced set of social values the decision made squarely produces deviant behaviour.

Institutional Anomie Theory highlights four theoretically derived sets of national cultural dimensions likely to promote or suppress tax evasion. They include individualism, achievement orientation, assertiveness and humane orientation. Individualistic cultural values set the stage for behaviours that emphasize the pursuit of firm self-interest, largely neglecting concern for ethical consequences. According to IAT, individualistic cultural values encourage firm's decision makers to choose goal achievement beyond concerns for the ethical or legal means to achieve goals (Hövermann, Groß & Messner, 2016). Thus, in such societies, firms more willingly deviate from accepted norms and evade taxes.

On the contrary, collectivist cultures favor allegiance to the greater collective rooted in the notion that societal members are interdependent (Hövermann et al., 2016) and, as such, should deter individual gains at the expense of the collective. This suggests that

individualistic cultural values should inflate temptations for firms to evade taxes. Deceiving the tax system and the dangers of being punished once detected of the cheating, and for this reason the individual will honour the tax compliance requirements for fear of being penalized. Needless to say, compliance amongst individual payment of tax has sustainably remained high over the years. Analytically, there is no support that enforcement by the relevant authorities could be responsible for making individuals comply. The ultimate idea with tax compliance is why less tax is paid than expected, not why tax payers evade paying taxes due. This theory facilitated the study objective that sought to determine the effect of tax law enforcement on non-compliant taxpayers on tax compliance in Kenya.

2.2.3 Theory of Constraints

The framework of constraints theory rests on the fact that an organization must always have constraints or a limiting factor that stands on its way of achieving its goals. The theory of constraints identifies the organization's weakest link or the most limiting factor that stands in the way of achieving its goal and then systematically work towards improving that constraint or limiting factor until it is no longer a limiting factor (Goldratt, 2017).

The theory has five focusing steps. one is identifying the current constraint. This is that single part that hinders the organization from achieving its goal. The second step is to exploit. This ensures making quick improvements to the constraint using existing resources' by making the most out of what is available. Thirdly is to subordinate. This ensures reviewing all activities in the process to ensure that they are all aligned with and support the needs of the constraint. Fourthly is to elevate. If the constraint has not been

removed consider further action that can be taken to eliminate that constraint (Barausse, Yunes & Chamberlain, 2016).

This is to ensure that the constraint is addressed completely. The last step is repeating the whole process. It is continuing improvement cycle. Because in every organization there is a challenge at every point therefore once a certain constraint has been removed the next constraint should be tackled. It is a reminder to the organization not to be complacent but to aggressively improve the current situation and move to tackling the next challenge (Puche & De la Fuente, 2016). Every organization seeks to have a system that will provide an effective and efficient way to do its operations. The system should be tailor made with specific needs that suits the organization. KRA with the aim of yielding better results in terms of revenue collection one of the challenges identified as a factor attributing to this is the manual tax system of operating like the filling of returns and penalties imposition. Thus, there is need to address this.

2.2.4 Ability to Pay Theory

This theory was developed by Smith and Pigou (1903) “The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state.” The ability-to-pay principle requires that the total tax burden will be distributed among individuals according to their capacity to bear it, taking into account all of the relevant personal characteristics. This is the most popular and commonly accepted principle of equity or justice in taxation as citizens of a country pay taxes to the government in accordance with their ability to pay. It seems that if the taxes are levied on this principle as stated above, then justice can be achieved. The most suitable taxes from this standpoint are personal levies (income, net worth, consumption,

and inheritance taxes) (West, 2016). The economists are not unanimous as to what should be the exact measure of a person's ability or faculty to pay. The main viewpoints advanced in this connection are as follows:

Ownership of Property: Some economists are of the opinion that ownership of the property is a very good basis of measuring one's ability to pay. This idea is out rightly rejected on the ground that if a person earns a large income but does not spend on buying any property, he will then escape taxation. On the other hand, another person earning income buys property; he will be subjected to taxation. Is this not absurd and unjustifiable that a person, earning large income is exempted from taxes and another person with small income is taxed?

Tax on the Basis of Expenditure: It is also asserted by some economists that the ability or faculty to pay tax should be judged by the expenditure which a person incurs. The greater the expenditure, the higher should be the tax and vice versa. The viewpoint is unsound and unfair in every respect. A person having a large family to support has to spend more than a person having a small family. If we make expenditure as the test of one's ability to pay, the former person who is already burdened with many dependents will have to pay more taxes than the latter who has a small family. So, this is unjustifiable (Hartman, Jain & Kundu, 2016).

Income as the Basics: Most of the economists are of the opinion that income should be the basis of measuring a man's ability to pay. It appears very just and fair that if the income of a person is greater than that of another, the former should be asked to pay more towards the support of the government than the latter. That is why in the modern tax system of the countries of the world, income has been accepted as the best test for measuring the ability to pay of a person.

2.2.5 Theoretical Framework

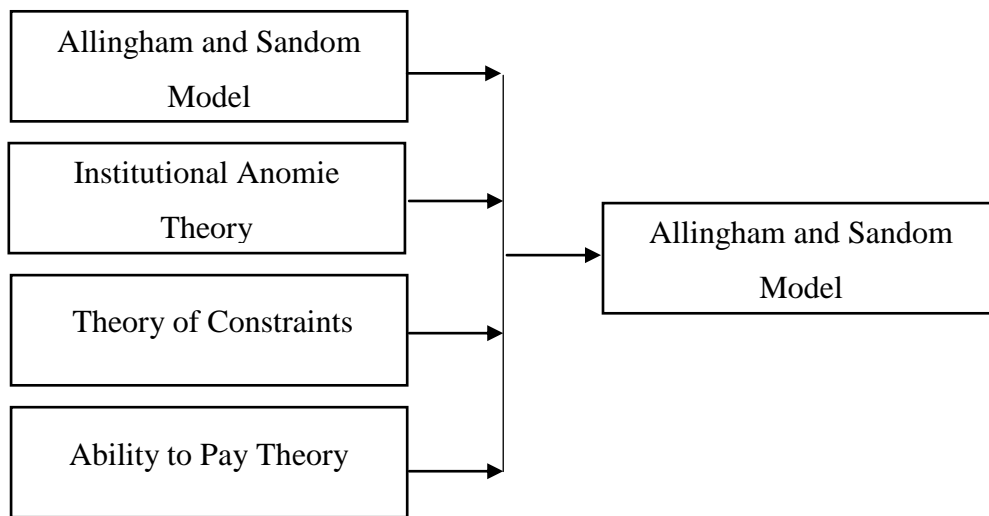


Figure 2.2 Theoretical framework

2.3 Empirical Literature

2.3.1 Tax payers Registration

Taxpayer registration is the act of recording companies and individuals' details on the basis of their unique identification numbers (KRA, 2013). Tax collection and administration can be improved through measures such as; shifting towards an electronic tax payer registration system where a uniform Personal Identification Number (PIN) would apply regardless of whether a tax payer is registering for individual tax, corporation tax or VAT (Chipeta, 2012). The registration and recording of taxpayer information is one of the fundamental functions of the tax administration and, to a great extent, drives how other core administrative functions operate. An inaccurate taxpayer database will inevitably lead to ineffective compliance programmes. The timely and accurate collection and recording of basic identifying information of the taxpayer will permit the tax administration to understand its taxpayer base, staff itself accordingly, and to effectively plan other core tax administration functions (Azubike, 2017).

The administration cannot manage its taxpayers if it does not know who they are, where they are located, and whether they are active or inactive. Enhanced revenue collection involves widening the tax base by bringing in more taxpayers into the tax bracket through rigorous taxpayer recruitment and registration. This can be efficiently achieved through use of voluntary online recruitment and registration (Murdoch, 2013). The electronic taxation systems are being adopted by governments across the globe with increasing frequency to aid in their tax revenue collection. These systems are popular with governments since they mitigate the mistakes that are rampant with manual filing and they help to prevent tax evasion by data matching (Bryson & Daniels, 2017).

According to Brown and Mazur (2013), taxpayer registration is the process, by which the tax administration collects basic taxpayer identifying information, such as names, addresses, and legal entity types. This information allows the tax administration to know who its taxpayers are, where they are located, and whether they are active or inactive. Modern tax administrations also collect compliance information, such as business activity types or estimated turnover, to plan future compliance activities. During registration, most tax administrations issue a unique Personal Identification Number (PIN) and a registration certificate, and provide the new taxpayer with information on his or her filing and payment obligations.

The basic registration functionality of an online tax system includes the storing and maintenance of taxpayer identifying information, the automatic issuance of PINs and taxpayer certificates, and the automatic determination of taxpayer filing requirements. Effective registration with online tax systems uses unique PINs to facilitate exchange of information between government agencies to ease the detection of non-compliance; integrates registration across taxes to allow for a single view of the taxpayer during audit

or collections; centralizes the registration database to allow for effective non-compliance monitoring; provides a single facility to the taxpayer to register for all taxes to simplify compliance; and interfaces with the e-tax system, allowing new taxpayers to register online.

In Kenya, Awitta (2010) did a study on the effectiveness of revenue collection strategies at KRA. The study adopted descriptive research design with focus on quantitative characteristics and status of revenue collection strategies at KRA with regard to enhancements of revenue collection. Stratified random sampling technique was used to select a sample of 154 staff from Nairobi Region. Data was collected using a questionnaire which was administered through face to face interviews. The study established that revenue administration reforms through adoption of online registration of taxpayers led to improved revenue performance, more equitable distribution of the tax burden across the community, more consistency and fairness for business and individuals, greater ability to implement fiscal reforms, reduced compliance costs for taxpayers, an increase in the number of registered taxpayers, a reduction in tax evasion and tax fraud, improved management of tax arrears, improved services to tax payers and, greater transparency and integrity in the administration's operations.

The registration module is used to register companies and individuals based on unique identification numbers. The registration module must be the first module in operation and taxpayer registration is the first process that should become operational. As explained, the gathering of data should be limited as much as possible and the update and verification of information must be possible from any module in the system. Multiple registrations are caused by negligence or by intent. Some taxes are related to thresholds or tax brackets, creating an incentive to minimize taxes by splitting some big businesses into several

smaller units. Many tax authorities request that for motor vehicle registration the holder is registered under a PIN. This increases the number of registered persons tremendously and endangers the data quality, because the person concerned might register only with the intent of completing the motor vehicle registration and might register for another business separately with different data (Musgrave, 2013). Negligence will also create a lot of obstacles for accurate, usable data.

The composition of names, consisting of first, middle and last name causes erroneous entries; missing birth dates make it difficult to differentiate between taxpayers with the same name. The goal of iTax is the registration of all taxpayers in the national database and the issuing of a national PIN for everybody. If the political will exists that all taxpayers or even all citizens should be registered under national PINs, incentives have to be created to encourage people to register with the national tax authorities. Also, many tax authorities do not register employees, because the salary tax (Pay as You Earn= PAYE) is a withholding tax paid by the employer. Normally, the employee then will not have the possibility to submit a tax declaration at the end of the year to claim back taxes (Awitta, 2010).

Certain iTax modules are accessible only to specific security level groups. Each user belongs to a group that has a particular access level with permission to view or edit different data. Each group member may only use the files or displays associated with his or her work and capacity. This security concept can be modified to be more refined if needed, including the possibility to write-protect or display only certain input fields, depending on the security status. Security clearance is organized according to official capacity. Managers will have reading access only, assessors will only be able to enter and edit data in their field of activity, accountants will be able to monitor and supervise all

payment activities. In addition to limiting possible user actions, all user activity is traced and logged for security audit purposes (Musgrave, 2013).

Tax rates and regulations change frequently, for example to compensate for inflation. The iTax module is designed in a way that legal tax changes and amendments can easily be incorporated into the system without having to change the program code. Additionally, the database stores the history of tax legislation. Thus, values and key variables of new tax laws can be integrated even before the new legislation comes into effect, without interfering with previous and ongoing computation functions (Awitta, 2010).

The iTax module for audit and risk analysis supports the selection of audit cases by generating a list of taxpayers, sorted by risk allocation. Additionally, it supports generating the audit business plan. The system prepares a notice to the taxpayer and records the time needed for the audit as well as the audit results. To each audit a narrative 20 audit report can be attached. It also allows allocating human resources to audit cases. Final audit reports summarize the findings of an audit, including revenue retrieved, and show the time needed to resolve a case. The ability to handle objection and appeal cases is a useful function for an integrated tax administration system (Musgrave, 2013)

Murdoch, 2013 noted that taxation has three principal objectives, which are regulation of the economy and economic activities, raising of revenue for the government and controlling of income and employment. Revenue realizable from taxation depends on some factors but principally on the tax base and rate. Tax base refers to the specification of the minimum amount above which is taxable, while tax rate is the amount, which is levied per unit of base. Tax bases simply are those objects upon which tax revenue are derived (Mansfield, 2016). Tax system, therefore, should be consistent with over-all economic policy, which may include such objectives as favouring savings over

consumption and raising private investment. Taxes no matter the type and how there are being administered bear effects on payer. Effects of taxation are the changes in the economy consequent upon tax imposition.

Anyanwu (1997) contends that the presence of tax distorts the pattern of production, consumption, investment, employment and other similar patterns for good or for bad and these distortions are collectively viewed as the effects to taxation Lewis (2015) observed that an effective and efficient tax administration system is integral to any country wellbeing. Previous studies have measured the impact of GDP on tax revenues. For instance, Ojeka, 2012 examined the revenue productivity implications of tax reforms in Tanzania. In the study, the tax buoyancy was estimated using double log form equation and tax revenue 13 elasticity using the proportional adjustment method. The argument for the use of proportional method was that a series of discretionary changes had taken place during the sample period, 1979 to 1989, making the use of dummy variable technique impossible to apply.

Puche & De la Fuente, 2016 evaluated the productivity of the Nigerian tax system for the period 1970 - 1990. The aim was to devise a reasonable estimation of Nigeria's sustainable revenue profile. In the study, tax buoyancy and tax revenue elasticity were estimated. The slope dummy equations were used for the oil boom and Structural Adjustment Programmes (SAPs). It was found that on the overall, productivity level was satisfactory. Results indicated wide variations in the level of tax revenue by tax source. Chipeta (1998) evaluated effects of tax reforms on tax yields in Malawi for the period 1970 to 1994. The study concluded that the tax bases had grown less rapidly than GDP.

A single centralized taxpayer registration database also enables proper planning, allowing the tax administration to rationalize staffing and resources based on the size and

geographic location of the active taxpayer population. Many of these tasks would be impossible without an online tax system. For example, an online tax system can automatically verify that newly issued PIN is, in fact, unique, while the same verification would be nearly impossible manually if the taxpayer population is large (Brown & Mazur, 2013).

According to Njogu (2017), many benefits can result from revenue administration reform. They include: Improved revenue performance, more equitable distribution of the tax burden across the community, more consistency and fairness for business and individuals, greater ability to implement fiscal reforms, reduced compliance costs for taxpayers, an increase in the number of registered taxpayers, a reduction in tax evasion and tax fraud, improved management of tax arrears, improved services to tax payers and, greater transparency and integrity in the administration's operations.

In relation to the impact of registration and tax compliance Cobham (2015) was interested in examining the relationship between taxpayer registration and compliance and revealed that indeed there was a positive significant relationship between taxpayer registration and tax compliance. His study made recommendations to the government policy makers to ensure that they develop policies on assessment of the possible implication of registration on tax revenues so as to enhance compliance (Teltscher, 2012).

Andarias (2016) carried out a study to analyse how taxpayer registration affects tax compliance and was able to establish that indeed taxpayer registration is an important tool if properly used, this is primarily because taxpayer registration enhances tax compliance. In addition, the study was able to establish that taxpayer registration can as enhance problem solving among taxpayers. He further recommended that technology adoption by taxpayers needs to be encouraged because it is the only way through which compliance

by registration can be achieved easily. In this regard therefore the study recommended the need for tax officers and those in charge of technology adoption in their respective offices to put in place strategies that will enhance technology adoption by taxpayers.

Jotham (2016) carried out a study to examine the influence of technology in tax administration and established that technology in taxpayer registration is an essential tool as it leads to enhanced efficiency. The study was able to reveal that the registration of taxpayers by way of tax systems and new technology helps to eliminate errors that will otherwise be committed in the absence of such technology. In addition, the use of technology in taxpayer registration allows for tax personnel to effectively handle more than one task through the integration of a number of procedures into one information system so as to enable easy operation ability. This therefore enhances compliance by taxpayers because they can be able to compile all there in formation in one user interface and thus it because easy to manipulate any data so as to make it useful.

McKerchar and Evans (2013) further sought to examine if indeed tax technology has a role to play when in it comes to taxpayer registration and how this further affects tax compliance. His study was able to reveal that technology helps in the facilitation of various taxpayer tasks in enhancing tax compliance given that it provides easy access to taxpayer information, as it enhances the various ways of making payments on the taxpayer platforms offered by the tax systems. The study further established that the adoption of technology enhances system administration in the event that the taxpayers are made familiar to the various developments in terms of new technology for tax systems.

Jenkins (2017) further sought to examine the role of technology on tax administration and established that indeed the tax system can never work better than its tax administration, but even the best tax administration would certainly fail to turn a bad tax system into a

well-operating one. In his study it was further established that tax compliance did not necessarily happen as a result of many ambitious tax reforms. In his argument, these reforms can only become effective if there is permanent reorganization of the tax administration. In fact he perceives that compliance can easily be enhanced through daily improvements as compared to ambitious tax reforms (Jenkins, 2017).

Misra 2014 argues that it is important for taxpayers to provide the authority with all the relevant information whenever making their returns and payments as prescribed by the laws, regulations, and court judgements. This is because failure to do so results into non-compliance and as such there are prescribed measures by authorities to deal with non-compliance whether the act was done intentionally or otherwise shall be seen to be an offence according to the law.

According to the 2017 Doing Business in Kenya report, the ease with which businesses can be registered has a bearing on the number of entrepreneurs who start businesses in the formal sector, leading to jobs and more government revenue (Olowookere & Fasina, 2013). The legal requirements for registration of an SME include registration of the company name with the Registrar of Companies, acquiring a Personal Identification Number (PIN) and Value Added Tax (VAT) with the Kenya Revenue Authority (KRA), Trade License with the ministry of Trade, and finally the Local authority licenses. Nonetheless, SMEs within Nairobi CBD take an advantage of their small sizes by not declaring and submitting their tax return to the Kenya Revenue Authority, most of them are tax noncompliant. Taxpayer education is undertaken to make them more knowledgeable on importance of paying taxes to the government.

2.3.2 Taxpayers Liabilities Verification

Taxpayer liabilities verification is the act of providing checks to see how much taxpayers are supposed to pay in lieu of their various obligations as well as verifying if indeed what is owed by them is what has been declared by the taxpayers through self-assessment (Jotham, 2016). To achieve full compliance on tax there has to be a way of verifying a taxpayer's income and expenditure. This requires more than a mere checking of a taxpayer's books and records. There are direct and indirect methods of verifying the taxpayer's liability. Direct methods rely upon verification of income or expenses especially with regards to the various accounting records or books of accounts which normally taxpayers are required to use whenever they declare their tax returns (Errad, 2012).

A study by Jenkins (2017) established that liabilities verification is a good step towards enhancing tax compliance. This he argues makes it possible for the commissioners of tax or tax officers to ensure that whatever has been declared by the various taxpayers with regards to each tax head is the correct reflection of what the business is supposed to declare. This therefore helps to enhance tax compliance in conformation to the various tax laws for that particular jurisdiction. The study further argues that the absence of liability verification means that taxpayers will only be able to declare and submit what they deem to be fit in their own judgement without particularly following the various requirements by law. This is therefore likely to open up loopholes for tax evasion which will reduce compliance levels.

Firstly, liability verification occurs in the event that the taxpayers do not make tax declarations with regards to their taxable activities. It takes several forms like failure to declare all taxable activities, falsifying the declared information and generally failing to

adhere to the laid regulations concerning declarations and submissions of tax returns. This is linked to tax evasion. Non-compliance reduces the government revenue which is essential in the provision of services to the citizens of that particular country (Njuguna, 2017).

Brown and Mazur (2015) have also argued that tax compliance takes three forms and these include: payment compliance, filing compliance, as well as reporting compliance. It has been advocated by the OECD (2015) further breaks down compliance into two categories these categories are administrative as well as technical. Administrative compliance deals with the manner in which the various administrative rules regarding lodging of compliance requirements, which sometimes is considered as part of reporting. On the other hand, the technical compliance deals with technical requirements of the tax laws when it comes to the calculation of various tax requirements (James & Ally, 2012).

Christina, Deborah and Gray (2013), conducted a study to determine the economic and behavioural factors affecting tax compliance among taxpayers. The objective of the study was to determine the economic and behavioural factors affecting the tax compliance among tax payers with tax penalty amnesty system. Using questionnaires administered to the participants of this amnesty program, the respondents identified factors that made them not to pay their taxes due, within the statutory period and not declaring the correct taxable income as; complexity of the tax laws, ability to pay, ignorance of the tax laws and the perceptions of high tax rates and unfairness of the tax system. According to (Kirchler & Wahl, 2014) a holistic view of taxpayers through use of electronic means would facilitate compliance by use of dynamic comprehensive approaches. Study supports that this approach would enable an organization gain a single view of the tax

payer; increase auditor efficiency; enhance policy analysis ability and improve performance management.

Angus Young (2016) paper sought to review research about Kenya's individual tax compliance. While empirical research in this jurisdiction is still in its infancy, the scale of the problem might be under estimated, or at least over looked. The effectiveness of media campaigns in the TV, use of tax information magazines, business customers/prospects and national newspapers will enhance awareness, tax filing, and ultimately tax morale among the tax payers. Clear scope of work- Periods and records to be covered have been clearly defined under tax laws which are advertised under print media channels, returning of confiscated tax payers records; 18 the law requires KRA to return such records within 6 months. Reports are now standardized containing relevant and key information. Reports shall now be digitally and centrally filed with all concerned departments having access. This will help in compliance follow-ups and avoiding repeat of audits. (<http://www.kenyaflowercouncil.org>).

In a study titled 'Tax Knowledge and Tax Compliance determinants in Self-Assessment System in Malaysia', Yankelovich and White (2013), concluded that in the self-assessment system in Malaysia, tax knowledge has a significant impact on tax compliance and the level of tax knowledge varies among respondents. Males, Malaysian, residents of Eastern region, high income earners and taxpayers who have attended tax courses appear to be the most knowledgeable taxpayer groups. The results also indicate that tax compliance was influenced by probability of being audited, perception of government spending, penalties, personal financial constraints, and referent group. These results were validated through a multiple method of questionnaires (direct and hypothetical questions) and analysis (stepwise multiple regressions and multiple regressions).

According to James and Ally (2012), the degree of non-compliance measured in terms of the net tax gap (the difference between „true“ individual income tax liability and that finally collected on a voluntary basis or by enforcement action) which happens by means of both tax avoidance and tax evasion. Most tax administrators and taxpayers believed that, the growing dissatisfaction with the fairness of tax system is the major causes for increasing tax noncompliance. Tax noncompliance can reduce revenue, distort labor market and weaken state stability by feeding perception of cheating and fraud. Early experience of audits in taxpayers' "tax life" is a more effective way to increase compliance than later audits. Also, Olowookere and Fasina, 2013 study of experimental research also suggests that, although the effectiveness of audits and fines cannot be completely confirmed, early audits in taxpayers' "tax life" have a positive impact on compliance.

Ranguma and Mosioma, 2012 Questionnaire based research by using descriptive statistics, result shows that the relevant tax authority (RTA) employed tax audit towards achieving target revenue, that tax audit reduce the problems of tax evasion, that tax payers do not usually cooperated with tax audit personnel during the exercise. Historical population data of a New York State economic sector was used. The results of both Ordinary Least Squares (OLS) and Time Series Cross Section (TSCS) autoregressive modeling methods suggest that after an audit, a firm would report a higher sales growth rate. Kleven (2015) 40,000 individual tax filers using experimental design and randomization test and SKAT's Business object Database with ordinary least square. Their research found that tax evasion rate is small for income subject to third party reporting, but substantial for self-reported income; marginal tax rates have a positive impact on tax evasion, but that this effect is small; prior audits substantially increase self-reported income and threat of audit letters also have a significant effects on self-reported

income, and the size of this effect depends positively on audit probability expressed in the letter.

Hyun (2005) Japan & Korea using world value survey dataset and descriptive statistics and multiple regressions for analysis. The study result revealed that Japan has the higher level of tax culture than that of Korea; and the legal system is relatively more important factor to determine the level of tax culture which eventually affects the level of compliance. Plumley Data set from 1982-1991 using OLS. The result found that there is a significant effect attributable to many tax policy and tax administration parameters; including: audits; third party information documents; the issuance of targeted non-filer notices; criminal tax convictions; marginal tax rates.

In an experiment study, Feld and Tyran (2012) found that the tax compliance is higher on average in endogenous penalty treatment in which subjects are allowed to approve or reject the proposal of a penalty as compared to an exogenous penalty treatment where penalty is imposed by the experimenter. The main explanation why people show higher tax morale if they are allowed to vote on a penalty is legitimacy. Compliance rates are higher if the penalty is accepted than in the case it is rejected.

2.3.3 Tax Laws Enforcement on Non-compliant Taxpayers

Enforcement of tax laws has been made easy with the entry of new technology which has specifically been designed to assist various authorities to implement tax laws (Myles, 2011). In Kenya for instance there has been a continuous effort by the Kenya Revenue Authority (KRA) to develop technology that aids in the administration as well as the enforcement of tax laws. This study focused on the latest technology iTax which has been implemented in the recent past with the main of enhancing effective administration and enforcement of tax laws in Kenya (Waweru, 2014).

Law enforcement for noncompliance is one way through which the authority can use in order to enhance compliance. The iTax platform plays an important role when it comes to enforcing the law on non-compliant taxpayers given that it has a way of generating reports of all defaulters (Lee, 2015). The iTax system allows a revenue official to generate reports for those taxpayers who have not filled returns when due and those who filled the returns but have not paid. This is a very important because it enables the people in charge to effectively address non-compliance as it arises. The system also imposes interest and penalty with accuracy and the same is notification is sent to the taxpayer. This information makes it possible for any revenue official to view the status of the taxpayer even when the taxpayer is applying for a compliance certificate and so such taxpayers cannot get their certificates before addressing their outstanding tax liabilities (Njogu, 2017).

When tax authority efforts to meet taxpayers' needs result in higher compliance, these efforts also reduce compliance costs. If a budget cut reduces the quality of service to its initial level, then the only gain is the reduction in administrative costs. The tax authority can as well decide, however, in order to maintain the standard of service but reduce its tax enforcement effort by reducing the number of audits. In this case administrative as well compliance costs will both fall. Of course, tax compliance is not necessarily the same in both cases, so a direct comparison between the two responses would be inappropriate (Masinde & Makau, 2010). Technology is therefore a very essential tool when it comes to enforcement of non-compliance given that it enables a comprehensive work (Cowell, 2013).

The adoption of the iTax system by KRA has been very essential in supporting the operation and delivery key business mandates while also enhancing tax compliance.

Yitzhaki (2012) argues that it is important for taxpayers to provide the authority with all the relevant information whenever making their returns and payments as prescribed by the laws, regulations, and court judgements. This is because failure to do so results into non-compliance and as such there are prescribed measures by authorities to deal with non-compliance whether the act was done intentionally or otherwise shall be considered as having committed an offence.

One of the decisive factors that give rise to the intention of behaving in the theory of planned behavior is the control beliefs. Control beliefs explain the existence of things that support or hinder the response that will be displayed. Also, control beliefs also explain the perception of how strong elements support and inhibit individual behavior. There are two types of enforcement strategies, a deterrence and accommodative approach that suggests that both strategies have a positive effect on tax compliance, but in that research, the accommodative approach has a more significant positive effect than the deterrence approach. A similar study is also conducted by Ortega and Sanguinetti (2013) who examine the effectiveness of enforcement and moral suasion in increasing tax compliance. The study explains that the message conveyed with enforcement tones has greater effect on tax compliance as compared to messages conveyed in a moral suasion tone. Law enforcement allegedly included in the category of control beliefs because law enforcement is an Indonesia Tax Office effort to inhibit the behavior of taxpayer non-compliance with the tax laws.

Based on social learning theory, taxpayers will imitate another taxpayer compliant behavior by first considering some meditational processes. One of the types of meditational methods introduced in social learning theory is motivation. Also, one of the determinants of people intentions in the theory of planned behavior is normative beliefs which means there is a motivation to fulfill an expectation. The positive reward, in

particular, winning the lottery has a positive relationship to tax compliance and taxpayers recognized by the government by publishing to the mass media also has a positive effect on tax compliance. Finally, the chance of winning the lottery has a positive effect on short-term tax compliance while the rewards of road sidewalk development at the taxpayer's location have a positive effect on long-term compliance. Tauy & Guvenc, (2012) using reward rewards and certification/compliance publications found the use of both strategies has a positive effect on taxpayer compliance in South Africa.

Seddon (2018) acknowledged that most people evade revenue enhancements and therefore, it is difficult for revenue enhancement authorities to impose and accumulate revenue enhancements anywhere and anytime. This study was carried out to examine taxation and tax compliance in Latin America and Caribbean (LAC) countries and beyond. Their approach relied upon the economic science of crime methodology pioneered by Becker (2015) and first applied to revenue enhancement abundance by Allingham and Sandmo (2013). The findings were that the impact of social norms on compliance behavior is a ground for understanding why people evade paying taxes. An iTax case study by Deutsche Gesellschaft für International Zusammenarbeit (GIZ) GmbH, to find out the experience of use of iTax in Tanzania and the Philippines found that iTax enhances a country's tax collections leading to significant increases of tax revenues. The reported revenue enhancements in Tanzania grew from US dollars twenty-five (25) million per month in 1996 to US dollars three hundred (300) millions per month in 2007 while in the Philippines, Province La Union: real property revenue enhancements rose to over eighty (80) per cent after the introduction of iTax in the province Brockmann (2016) state different things from the results of his research that rewards have no significant effect on tax compliance and the positive reward gives a negative

effect on tax compliance for taxpayers who do not get rewards. Reward in this research uses the recommendation to ease banking credit (monetary reward) because the central problem of SMEs in conducting its business is financing, while the primary consideration of using reward in the form of compliance certificate/mass media publication (nonmonetary reward) because the reward will increase the intrinsic motivation of the taxpayer to comply. Reward allegedly included in the category of motivation in social learning theory and also included in the normative beliefs in the theory of planned behavior because the reward will bring the desire or motivation of taxpayers to conduct comply/ respectful behavior towards taxation regulations.

In particular the research will focus on the impact of penalties and sanctions as a key determinant upon taxpayer behaviour. The link between taxpayers' attitudes towards penalties and their consequential attitude towards evasion/non-compliant behaviour is one which has been subject to considerable research in the past (Levi, 2017). The study of penalties is important given that it is also one of the factors which are within the control of tax authorities. An emphasis in the study was placed on how taxpayers' felt penalties impacted as a deterrent measure and the appropriate use of penalties by the revenue authorities. Allowing for some expected inbuilt bias given the cohort of taxpayers being investigated, the study will nevertheless shed some light on the views of tax evaders regarding penalties and enforcement measures by analyzing original tax evader data.

Some researchers have found that taxpayers are more sensitive to the magnitude of the penalty than to the probability of detection when the probability is very low (i.e., 4% or less) (Sacks, 2012). This could have implications for countries that have moved to a self-assessment environment. A particular study observed that there was a significant relationship between the severity of the criminal sanctions and compliance by one group

of taxpayers-high-income self-employed individuals (Tavakol, 2015). Within each of the groups this study covered, legal sanctions were most effective for the higher class and the better educated (not the best). This study did indicate however, that the threat of guilt feelings was a greater deterrent to tax evasion than the threats or stigma of legal sanctions. This finding has been supported by similar work on sanctions and penalties (Seddon, 2018).

However, the positive effect of increased sanction levels on taxpayer compliance has been found even where relatively low (and realistic) penalty levels are used (Kirchler, 2014). What is of major concern though has been that taxpayers' perceptions of penalty levels are higher than the actual penalty levels. This has tended to skew some research findings. Other research evidence suggested that a tax system that combines both penalties and rewards is more effective in maximizing compliance than a system that focuses solely on sanctions (Sacks, 2012). Consequently, positive inducements to encourage compliance may also have a key role to play. However, other studies evidence the unwanted effects of rewards such as crowding out and the overall inconclusive effects of rewards (Porcano, 2013).

In contrast, studies of criminal behavior in general have found that the probability of apprehension is more important than the sanctions actually imposed. Alternatively, another influence may just be the precision of information regarding the probability that punishment will be imposed. Consequently, vague information about the relatively low probability of detection and punishment enhances a low deterrent value (Lewis, 2015). There is also evidence that suggests that taxpayers consider the probability of detection to be higher than it actually is (Kaufmann, 2014).

Some compliers comply not just because they do not have the opportunity to evade or because they are exceedingly risk-averse but because they think it is the right thing to do. Importantly, they think other "right-thinking" people are also complying. By definition, there are more such people in "high-compliance" countries than in "low compliance" countries. Even in the latter, however, it is a gross oversimplification to pretend that every taxpayer views the decision as to whether to pay his taxes as a gamble to be decided independently of his membership in and loyalty to the community. Some always pay; some always cheat; and some cheat when they think they can get away with it. An important task of tax administration is to prevent the mix from "tipping" in the direction of pervasive non-compliance.

Increased enforcement actions (like amnesties - whether viewed separately or jointly from increased enforcement) may have quite different results on "compliers" than on "non-compliers." So, may increase efforts at public education about taxpayer rights and obligations or increased efforts by tax authorities to provide improved service to taxpayers. Such policies may change attitudes, although not all changes for all groups will necessarily be in the desired direction. Nonetheless, a good case can generally be made that the "optimal" enforcement strategy is likely to include both rewards (support) for compliers and penalties for non-compliers.

In addition, while there are few studies of private compliance costs in developing countries, the evidence from studies in developed countries (Fuest & Riedel, 2013) is that these costs are larger than public costs, that they are largely substituted for public costs, and that their incidence can be quite different from those of the taxes themselves. The complexity and cumbersome administrative methods employed with respect to some taxes found in some developing countries - for example, stamp taxes and the variety of

minor excises - suggest that compliance costs may well be very high in such countries. Moreover, compliance costs have been found to be particularly sensitive to the stability of the tax legislation and to such changes in the external environment as inflation.

The taxpayer's decision to comply, or not comply, with his fiscal obligations is of course the subject of a large formal theoretical literature on the economics of tax evasion (Cowell, 2013). While some progress has been made both in incorporating the "strategic" aspects of the evasion decision in a game theoretic framework and in modelling it in principal-agent terms, much remains to be done before the results of such analysis have much to say about the real world "tax game" in developing countries. For example, most literature on tax evasion assumes that tax officials are completely honest. If not, all officials are honest (and in the expected utility framework it is not clear why they should be expected to be), the game is very different than that usually modelled. "Leakage costs." as Yitzhaki (2012) calls that portion of tax revenues that flows into the pockets of officials rather than into the coffers of government, may simply be transfers in economic terms, but they may nonetheless result in significant distortions as new taxes are invented and tax rates increased in an attempt to make up the revenue loss.

In his study on the factors affecting tax compliance by Real Estate developers in Nakuru town, Osebe, (2013) reveals that tax compliance cost is a contributory factor to tax compliance. From the study findings, there is enough indication that tax compliance cost is associated with high levels of tax compliance thereby increasing tax revenues. Taxpayers do a cost-benefit analysis of the cost of being caught through audits and the probability of being penalized, together with the possibility of criminal sanctions and where the magnitude is high; they end up following tax law and in effect comply. The

study also provides some preliminary evidence that fines and penalties play a vital role in improving tax revenue.

Nyaga (2014), in her study on tax compliance, enforcement and taxpayer service in Kenya purposed to explore the relationship between enforcement policies and taxpayer service on tax compliance. The study used simple regression analysis of aggregate variables representing enforcement measures against audit, penalties, criminal sanctions and taxpayer service. A sample frame list of self-employed individual taxpayers was used for 2003 to 2012. Nyaga found that audit and penalty had a positive relationship with tax compliance and hence tax revenue and taxpayer service and criminal sanctions had a negative relationship. With the variability in audit rate accounting for only 31% of the variability in tax compliance, she concluded that why Kenyans pay taxes remains an interesting question that required further research.

Mararia (2014), evaluated the effect of Integrated Tax Management System (ITMS) on tax compliance by the small and medium enterprises in Nairobi central district. The target population for the study comprised of 200 taxpayers out of which 100 taxpayers were picked as a representative sample. Data was analysed by use of Statistical Package for Social Sciences. Although the study was mainly on ITMS effect on tax compliance, Mararia found that penalties and fines had a significant positive relationship with tax compliance. This resulted to an overall increase in collections as penalties and fined deterred tax evasion by taxpayers.

2.3.4 Taxpayers Reports and Statistics on Tax Compliance

Reports and statistics are a very good way of presenting taxpayer information to show the correct position of the taxpayer with regards to the registration details, returns, payments as well as compliance status. Taxpayer reports can be presented at every given interval,

these can be done daily, weekly, monthly quarterly and yearly basis depending on when they are needed and for what purpose (Njogu, 2017).

There are studies which have been carried out to examine the relationship between taxpayer reports and compliance. For instance, Mohamad (2017) sought to examine the influence of taxpayer reporting on compliance behaviour by divided the tax knowledge in to groups those are, knowledge explicitly focused at possible opportunities to evade tax and knowledge gained through formal education. This study revealed that indeed there is a positive relationship between taxpayer reports and compliance levels because taxpayer reports provides a general understanding of what the taxpayer owes the agency as well as how best to enhance compliance levels for the said taxpayers through the fulfilment of the taxpayer obligations.

Maseko (2014) further carried out a study which sought to examine the effects of reporting on tax compliance for small taxpayers in Zimbabwe. His study revealed that there was a positive significant relationship between reporting and taxpayer compliance. The study further revealed that indeed taxpayers are with different business situations from large businesses which cause them to bear high tax compliance burdens than SMEs. In addition, the study also revealed that there existed negative perceptions of small taxpayers regarding tax fairness; tax service quality as well as government expenditure priorities greatly affect their tax compliance decisions in the country.

Taking the restricted end of the continuum first, one suggestion is that the extent of non-compliance may be measured concerning the terms of “Tax Gap” (Fjeldstad, 2013). This represents the distinction between the revenue gathered and the amount that might be gathered if there were 100% compliance. Tax non-compliance might be found in terms of tax evasion or avoidance. These two activities are usually differentiated in terms of

lawfulness, with ranging from lawful measures to diminish tax liability to evasion via outlawed measures. Some observers see non-compliance as an evasion problem; however, this doesn't seem to capture the complete meaning of the problem. Without a doubt, however, tax evasion is a form of non-compliance. In any case, if citizens go to inordinate lengths to lower their liabilities, these actions could hardly consider "compliance" either. These activities, for example, may incorporate fake transactions to reduce tax liabilities, utilizing postponing strategies or false claims to diminish the stream of tax payments, among others (James & Alley, 2012).

There is also "Tax Exiles" who are people with high income who live in a country with low tax rates, so this group of people appears to want to emigrate to reduce their obligations as a taxpayer (Andreoni, Erard, & Feinstein, 2016). Even if tax exile and tax avoidance are practiced without contravening any law, they are not ethically good. Compliance may be defined in this manner as complying with both ethical and regulatory principles of taxation.

Tax compliance is a varied behavioural issue, and an examination of this issue requires employing a variety of methods and the knowledge of various sources as each instrument has both benefits and shortcomings. Aim (2012) defined tax compliance as the coverage of all income and paying all taxes by fulfilling the provisions of laws, rules, and court judgments. Drawing from this definition, taxpayers must reveal all the pertinent information about their revenue, and, therefore, the form should report actual liabilities in accordance with laws, rules, and court judgments. Abandonment of tax laws deliberately is considered non-compliance.

As Levi (2017) indicated, gathering taxes through voluntary compliance is less expensive than through the use of enforcements. Tax compliance is an ambivalent concept to

characterize. In general, no standard accepted definition for compliance exists, but rather the meaning of compliance can be seen as a continuum of definitions (James & Alley, 2012). As indicated by the authors, the scope of compliances stretches from the restricted law authorization approach to extensive economic definitions and onwards to much more exhaustive renditions of the characteristics related to the decisions of citizens to comply with the tax law. James and Alley (2012) considered tax compliance as being related to the tax gap. The tax gap may be defined as the difference between that which is owed and that which is reported and voluntarily paid on a timely basis (Andreoni et al., 2016).

Tax agencies have used different methods to determine the degree of compliance. However, some compliance typically occurs subject to the status of mind and activity elements of citizens (Moore, 2014). Additionally, the degree of non-resistance of a singular citizen relies upon individual components such as trust in government and an assessment by taxpayers of the taxes paid versus the public benefits received, the perceived fairness of the tax system, and ease of complying as well as on a mix of conditions (Andreoni et al., 2013).

Bergman (2014) investigated tax compliance behaviour in Argentina using two approaches; the measures to enhance commercial taxpayers and extensive campaigns and audits which will increase the probability of detection among taxpayers. The results suggested that as the number of audits and the probability of detection increased, taxpayers were encouraged to comply with tax laws and accurately report their income which had a positive impact on tax revenue. This suggests that unintentional evasion may occur rather than intentional evasion. He also claimed that the lack of audits and investigations implemented by tax authorities in the 1980s in Argentina had driven taxpayers to behave 'recklessly'. Moreover, as taxpayers were aware that they would not

be detected due to lack of investigations, they incorporated more complex tax evasion strategies and less traceable documentations so that they could pay less tax. Findings by Bergman are consistent with the theoretical proposition that the fear of detection influences the level of compliance behavior, suggesting that the evaders take precautionary measures when the perceived risk of detection is high. Findings from Bergman have also evidenced that probability of being detected plays a significant role in inducing compliance behavior.

Roth (2013) defined tax compliance as filing all required tax returns at the proper time and that returns accurately report tax liability in accordance with the tax law applicable at the time the return is filed. The findings from a cross cultural study between Hong Kong and Australia indicated that Australian taxpayers were generally more compliant than the Hong Kong taxpayers (2013). Bobek (2015), on the other hand, used a hypothetical tax scenario in their experimental study to investigate the taxpayers' noncompliance behaviour in the US, Australia and Singapore. Results indicated that Singaporean taxpayers had the lowest noncompliance rate at almost 26 percent, while Australian taxpayers had the highest at 45 percent. The findings further suggested that complete compliance was highest in Singapore (54 percent) and lowest in Australia (30 percent). The US was in the middle in terms of both the compliance and noncompliance rates.

According to Alm (2014), the scope of tax compliance includes, reporting income and paying all taxes in accordance with the applicable laws, regulations, and court decision. Tax compliance typically means, true reporting of the tax base, correct computation of the liability (accuracy), timely filing of the return, and timely payment of the amounts due (timeliness). Another definition of tax compliance is a person's act of filling the Income Tax Form, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the

authority. Roth (2013) explain that taxpayers need to prepare all the relevant information in the Income Tax Form within the period given, and the form must report accurate tax liability in accordance with the needs of laws, regulations, and court judgments.

Mukasa (2015), examined the relationship between tax knowledge, perceived tax fairness and tax compliance of small and medium enterprises in Uganda. The study adopted a cross-sectional research design, combined with qualitative (analytical and explanatory) and quantitative (descriptive and inferential) research designs. The study considered tax registered small and medium enterprises within the Central Division of Kampala District. The sample size of the study was 330 respondents. Self-administered questionnaires were used to collect data from the SME owners or managers. The study found out that, tax knowledge and perceived tax fairness had a causal relationship with tax compliance. Tax knowledge and perceived tax fairness was found to have a positive and significant relationship with tax compliance. However, the relationship between tax knowledge and perceived tax fairness was found to be weak. These findings imply that positive improvement of taxpayers' knowledge and perceptions of fairness about taxes will lead to improved tax compliance.

Mukasa 2015 assessed the challenges and opportunities of house rental income business tax in the regional state of Tigray in Ethiopia. The study collected data from 200 respondents via a survey questionnaire. The study findings established that there exists inefficiency and insufficient number of business house rent tax assessment and collection officers in the regional state of Tigray. Moreover, the study found out that most taxpayers lack sufficient knowledge of tax assessment and collection procedures. Thus, most of the business house rent taxpayers do not know the existing applicable rules and regulations. Further, the study found out that due to negligence, delays in tax payment and evasion are

taken by taxpayers as solutions to escape from payment of proper business house rental income taxes.

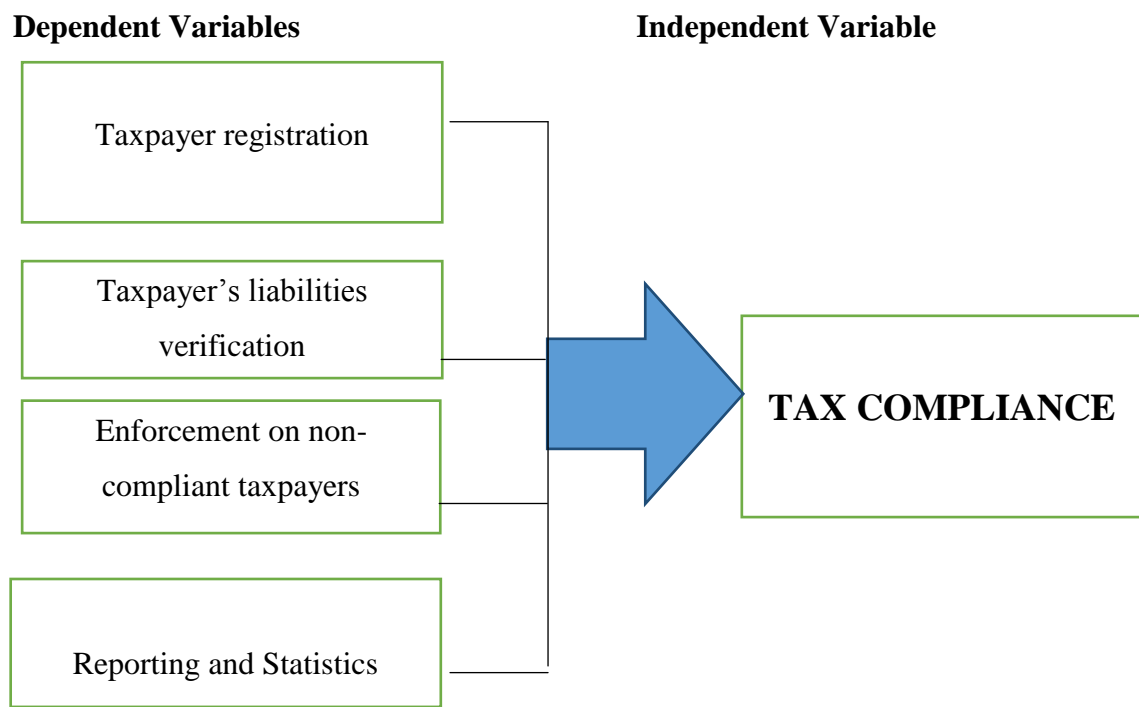
Normala and Obid (2013), conducted a study to examine the influence of tax education, as a proactive approach to enhance voluntary tax compliance, among taxpayers, in Malaysia. There was a move from the official assessment of taxes, to a self-assessment system, in 2004. Under the self-assessment system, a taxpayer assesses his tax liability, pays taxes to the revenue authority, and later on the revenue authority conducts audits to establish the accuracy of the declarations in returns and payment, thus a high voluntary tax compliance system. Using questionnaires administered to taxpayers and tax officials, the respondents confirmed that an increase in tax knowledge would increase the level of voluntary tax compliance. The statistical findings, confirm that there is a significant relationship between the level of tax education and the level of voluntary tax compliance.

A study conducted by Porcano (2013), evaluated deterrence and morale on taxation in Switzerland. In their empirical analysis, they used cross section time series data from 26 cantons over the period 1975-1995. Their enforcement technique was represented by the authoritarian procedure of the tax agency in which standard penalties and audit rates were increased. The results surprisingly showed that the probability of detection through audit was statistically significant (at the 5% level) and had a theoretically unexpected positive sign. This suggested that a higher probability of being caught through audit raised (rather than lowered) tax evasion which affected tax revenue. However, an increase in standard penalty lowered tax evasion in a statistically significant way (1%) which corresponds to the theoretical expectations. They observed that enforcement measures are not the sole contributors to increased compliance and how taxpayers view treatment from tax agency also contributed to compliance.

2.4 Conceptual Framework

A conceptual framework can describe to mean a written or visual presentation of what the study intends to study (Myles, 2011). A conceptual framework is also described to mean set of broad ideas as well as principles that have been obtained from relevant fields of enquiry and therefore used to develop to develop subsequent presentation. Figure 2.1 presents the conceptual framework that was adopted in this study. It shows the relationship between the various independent variables and the depended variable which is tax compliance.

Figure 2.2: Conceptual framework



Source: Author (2019)

2.5 Operationalization of Variables

Dependent Variable

Independent Variable

Parameters

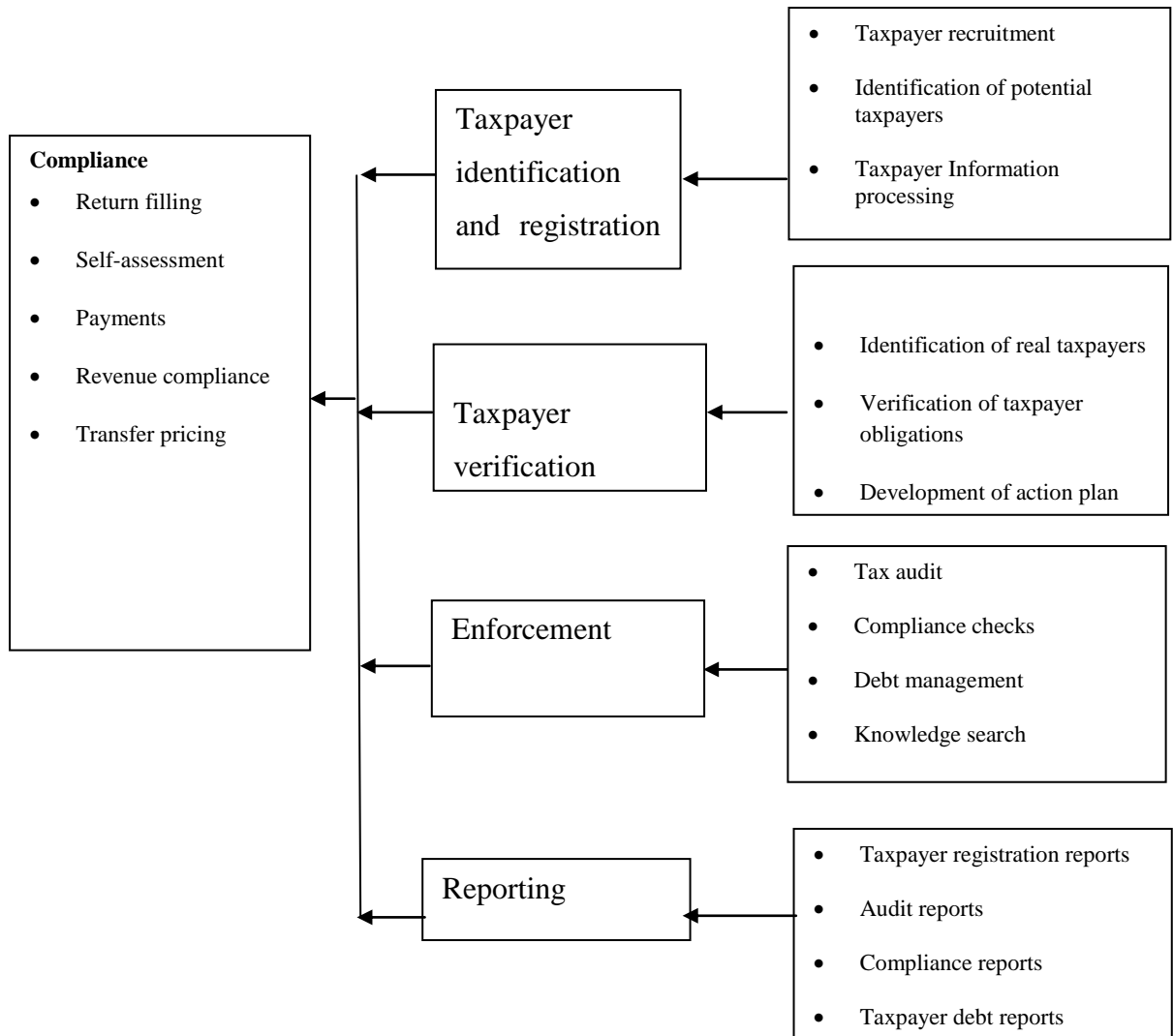


Figure 2. 1: Operational Framework
 Source: (Researcher, 2019)

CHAPTER THREE:

RESEARCH METHODOLOGY

3.1 Introduction

This chapter is mainly concerned with the research methodology on the various factors affecting taxpayer compliance. Ideally the research methodology encompasses the research design as well as the population and the data collection methods which the researcher considers to be relevant to this particular study. The chapter also presents the research model as well as the data analysis techniques.

3.2 Research Design

This study focused on the adoption of a descriptive type of research design, which the researcher deemed appropriate for this particular study. Descriptive research design normally involves the identification of various characteristics of an observed phenomenon through the exploration of possible correlations that co-exists between the phenomenon (Coolidge, 2013). Mugenda and Mugenda (2003), recommended use of descriptive research design in studies where the researcher wants to establish if the facts at hand are true where the problem is already defined.

The respondents were given the option of anonymity in their response and they were also assured of confidentiality. A time frame of two weeks was given to the respondents to fill out the questionnaires in order to avoid putting them under undue pressure to fill out the questionnaire despite their busy work schedule. Research Assistants who have a business background between junior and senior year of study will be used after being trained on various aspects of the research instrument.

3.3 Target population

This is the group of individuals from which the researcher intends to draw conclusions from. The population forms a basis from which the sample or subjects for the study is drawn, Coolidge (2013). This study focused on a population of Large Taxpayers who totalled 1,238 in number.

Table 3. 1: Population

Sector	No. of Taxpayers	Percentage to the Population
1 Agric	119	10%
2 Wholesalers	127	10%
3 Banking Sector	93	8%
4 Insurance sector	64	5%
5 Excise Sector	101	8%
6 Manufacturing Sector	198	16%
7 Government Institutions	143	12%
8 Building and Construction	119	10%
9 Services Sector	135	11%
10 Oil Gas & Transport Sector	139	11%
Totals	1,238	100%

Source: (KRA 2019)

3.4 Sampling Technique

A sample is a part or representative element of the total population. In this study, probability sampling technique in form of stratified sampling was adopted. The respondents were grouped into various strata on the basis of their respective sectors as seen in Table 3.1. After stratification was done, the researcher employed simple random sampling to select respective respondents to be engaged in the study. This way the researcher was able to pick a representative from each sector.

3.4.1 Sample Size

A sample size is a representative element of the target population under study. In this particular study a 10% of the entire population of 1,238 was used as the sample size, as seen in table 3.2. Mugenda and Mugenda (2003) cited in Feld (2014), argues that a

sample size of 10% is reasonable enough for any study. As a result, a sample size of 124 was arrived at.

Table 3. 2: Sample Size

	Sector	No. of Taxpayers	Percentage to the Population	Sample Size (124)
1	Agric	119	10%	12
2	Wholesalers	127	10%	14
3	Banking Sector	93	8%	8
4	Insurance sector	64	5%	6
5	Excise Sector	101	8%	10
6	Manufacturing Sector	198	16%	20
7	Government Institutions	143	12%	14
8	Building and Construction	119	10%	12
9	Services Sector	135	11%	14
10	Oil Gas & Transport Sector	139	11%	14
	Totals	1,238	100%	124

Source: (KRA 2019)

3.5 Data Collection Methods

This study made use primary data. Primary data was collected by way of questionnaires while secondary data was collected from reports and other research materials from the KRA research division. The administration of questionnaires was done on Finance Managers of the sampled companies. Respondents were assured of strict confidentiality of the information they have shared with the researcher and that the information will be strictly for research purposes. This was done in order to enhance the response rate.

3.5.1 Validity and Reliability of Research Instruments

Mugenda and Mugenda (2003) define validity as the degree to which results obtained from analysis of the data actually represent the phenomenon under study. It is the accuracy with which the research answers the research question. Reliability is the level to which the measure the research instrument yields consistent results or data after repeated trials (Coolidge, 2013). In order to test the validity of the questionnaire, a pilot test on 5

percent of the sample size will be conducted. The final version of the questionnaire will be distributed to respondents in the sample size leaving out the respondents who took part in the pilot test. Since all the respondents are located within Nairobi area, three days will be sufficient to distribute the questionnaires through drop and pick methods to the sample population.

3.6 Data Collection Procedure

The instruments that were used to collect data were prepared. The questionnaires were both structured and unstructured. The researched adopted the drop of the questionnaires which were later picked after the respondents had filled the questionnaires. Each questionnaire was accompanied by a transmittal letter, explaining the purpose and importance of the study.

3.7 Data Analysis

Data analysis was done using Statistical Package for Social Scientists (SPSS) and Microsoft Excel. Descriptive statistics such as Frequencies, Central tendencies (mean, median, mode), Measures of dispersion (Std. deviation, range, and variance) and inferential statistics (relationships and differences among variables) were used in analysing sustainability of tax compliance. Responses from open ended questions will be analysed together with descriptive statistics and were used to make recommendations for improvement.

The following regression equation will be adopted in the analysis.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

$Y = \text{Tax Compliance}$

$X_1 = \text{Taxpayer identification and registration.}$

$X_2 = \text{Verifying taxpayers' liabilities}$

X_3 = Enforcement of tax law on non-compliant

X_4 = Reporting and statistics

To identify the effect of perceived security as well as the effect of system stability on tax compliance, a simple linear regression analysis was carried out with tax compliance as the dependent variable and factors as the independent variables. Interpretation of results will be made at both 5% and 1% level of significance. Presentation of the analysed data was done using tables and figures.

3.8 Ethical issues

The researcher requested a letter of introduction from the Kenya Methodist University-Nairobi campus. The researcher explained the importance of the study to the respondents and the overall expectations of the study. The respondents were assured of the confidentiality of any information shared and that it would be used only for the purpose of the study. The researcher acknowledged the source of information.

CHAPTER FOUR:

RESULTS AND FINDINGS

4.1 Introduction

This chapter focused on providing a detailed analysis of the study based on the data gathered using the questionnaires. The chapter further provides findings on all the three research objectives on how iTax impacts on Tax compliance. This was attained through the specific objectives highlighted in Chapter one. The researcher issued 124 questionnaires out of which 80 questionnaires were returned signifying 65 percent response rate.

4.2 Background Information

4.2.1 Gender of the Respondents

Table 4.3 reveals that the majority of the respondents were male (60 percent), while the female were 40 percent. This implies that the organization of the study was gender sensitive.

Table 4. 3: Gender of the Respondents

	Frequency	Percent
Male	48	60.0
Female	32	40.0
Total	80	100.0

4.2.2 Age of the Respondents

Table 4.4 reveals that 10 percent of the respondents were of the age 20-35 years, while 72.5 percent of the respondents were of the age 26-30 years, 15 percent of the respondents were of the age 31-35 years while the remaining 2.5 percent were 36 years and above. This implies that there was balance in terms of age distribution.

Table 4.4: Age of the Respondents

Age in years	Frequency	Percent
20-25	8	10
26-30	58	72.5
31-35	12	15
36 Years and Above	2	2.5
Total	80	100

4.2.3 Level of Education

Table 4.5 reveals that majority of the respondents (55 percent) had undergraduate degrees while 40 percent had Masters Degrees as the remaining 4 percent had Diploma qualifications as their highest education level.

Table 4.5: Level of Education

	Frequency	Percent
Diploma	4	5
Undergraduate	44	55
Graduate	32	40
Total	80	100

4.2.4 Years of Employment

Table 4.6 reveals that majority of the respondents have a working experience of 0-4 years at the organization while 17.5 percent have been in employment for 5-9 years while 30 percent of the respondents have been in employment for 10-14 years as the remaining 7.5 percent had worked for 15 years and above. The findings provide an implication that indeed majority of respondents had massive working experience this is attributable to their number of years in the organization.

Table 4.6: Years of Employment

	Frequency	Percent
1-5 Years	36	45
6-10 Years	14	17.5
11-15 Years	24	30
16-20 Years	6	7.5
Total	80	100

4.2.5 Functioning ICT Systems

Figure 4.1 shows that 70 percent of the respondents were in agreement that their respective organizations have functioning ICT systems at their workplace.

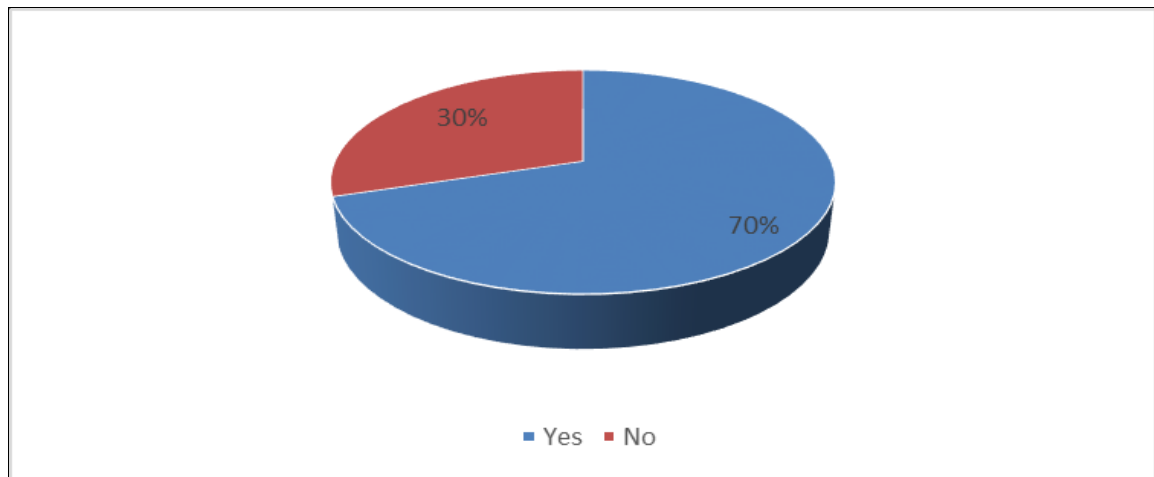


Figure 4. 1: Functioning ICT System

4.3 Descriptive Analysis

4.3.1 Taxpayer Registration on Tax Compliance

The first objective of the study was to examine how taxpayer registration and identification impacts on tax compliance. Table 4.7 presents findings with regards to taxpayer registration on tax compliance.

Table 4.7: Taxpayer Registration and Identification on Tax Compliance

Constructs	SD	A	N	A	SA
iTax has enabled taxpayers to capture all income from different sources in their tax return	12%	9%	3%	55%	21%
iTax has enabled taxpayers to keep proper records	5%	3%	5%	58%	29%
iTax has enabled taxpayers to understand the tax laws in regards to Notice of Assessment and the stipulated periods	2%	6%	2%	57%	33%
iTax has enabled taxpayers to understand the need to obtain PIN numbers for every tax head	3%	2%	4%	62%	29%
iTax has enabled taxpayers to know which income should be included or excluded when it comes to the determination of taxable income	12%	9%	5%	49%	25%

As seen in table 4.7 it is evident that 76% of the respondents agreed that iTax has enabled taxpayers to capture all income from different sources in their tax return, while 87% of the respondents agreed that iTax has enabled taxpayers to keep proper records pertaining to income and expenditure for a period for a period of seven years after submission of the return. Enforcement of tax laws has been made easy with the entry of new technology which has specifically been designed to assist various authorities to implement tax laws (Myles, 2011). In Kenya for instance there has been a continuous effort by the Kenya Revenue Authority (KRA) to develop technology that aids in the administration as well as the enforcement of tax laws. This study focused on the latest technology iTax which has been implemented in the recent past with the main of enhancing effective administration and enforcement of tax laws in Kenya (Masinde and Makau, 2010). In relation to the impact of registration and tax compliance Musgrave (2014) was interested in examining the relationship between taxpayer registration and compliance and revealed that indeed there was a positive significant relationship between taxpayer registration and tax compliance. His study made recommendations to the government policy makers to ensure that they develop policies on assessment of the possible implication of registration on tax revenues so as to enhance compliance (Teltscher, 2002).

The study agrees with Jotham (2016) who carried out a study to analyze how taxpayer registration affects tax compliance and was able to establish that indeed taxpayer registration is an important tool if properly used, this is primarily because taxpayer registration enhance tax compliance. In addition, the study was able to establish that taxpayer registration can as enhance problem solving among taxpayers. His study further recommended that indeed taxpayer registration through the use of technology is only regarded as efficient when handled by well-trained personnel and if embedded in the workflow of the organization. He further recommended that technology adoption by taxpayers needs to be encouraged because it is the only way through which compliance by registration can be achieved easily. In this regard therefore the study recommended the need for tax officers and those in charge of technology adoption in their respective offices to put in place strategies that will enhance technology adoption by taxpayers.

The study revealed that 90% of the respondents agreed that iTax has enabled taxpayers to understand the tax laws in regards to Notice of Assessment and the stipulated periods. In the same regard these findings agree with The study further revealed that 91% of the respondents agreed that iTax has enabled taxpayers to understand the need to obtain PIN numbers for every tax head which agrees with Jenkins (2017) who further sought to examine the role of technology on tax administration and established that indeed the tax system can never work better than its tax administration, but even the best tax administration would certainly fail to turn a bad tax system into a well-operating one. In his study it was further established that tax compliance did not necessarily happen as a result of many ambitious tax reforms. In his argument, these reforms can only become effective is there is permanent reorganization of the tax administration. In fact he perceives that compliance can easily be enhanced through daily improvements as compared to ambitious tax reforms (Jenkins, 2017).

Finally the study revealed that 91% of the respondents agreed that iTax has enabled taxpayers to understand the need to obtain PIN numbers for every tax head. Jotham (2016) carried out a study to examine the influence of technology in tax administration and established that technology in taxpayer registration is an essential tool as it leads to enhanced efficiency. The study was able to reveal that the registration of taxpayers by way of tax systems and new technology helps to eliminate errors that will otherwise be committed in the absence of such technology. In addition, the use of technology in taxpayer registration allows for tax personnel to effectively handle more than one task through the integration of a number of procedures into one information system so as to enable easy operation ability. This therefore enhances compliance by taxpayers because they can be able to compile all there in formation in one user interface and thus it because easy to manipulate any data so as to make it useful.

Brown and Mazur (2015) have also argued that tax compliance takes three forms and these include: compliance with regards to payments, compliance with regards to filling of returns, as well as compliance with regards to reporting. It has been advocated by the OECD (2015) further breaks down compliance into two categories these categories are compliance with regards to administrative issues as well as compliance with regards to technical issues. Administrative compliance deals with the manner in which the various administrative rules regarding lodging of compliance requirements, which sometimes is considered as part of reporting. On the other hand the technical compliance is particular focused on the taxation technicalities as spelled out in law (James & Ally, 2012).

4.3.2 Taxpayer's Liabilities Verification and Tax Compliance

The second objective of the study was to examine how taxpayer verification impacts on tax compliance.

Table 4.8: Verification of Taxpayers Abilities

Constructs	SD	D	N	A	SA
KRA carries out verification of taxpayer liabilities in Kenya	12%	9%	5%	49%	25%
There are measures to be taken on verification of taxpayer liabilities to enhance Tax compliance in Kenya	3%	0%	12%	47%	33%
Verification of taxpayer liabilities influence Tax compliance in Kenya	10%	4%	4%	55%	27%

Table 4.8 reveals that 74% of the respondents agreed that KRA carries out verification of taxpayer liabilities in Kenya, Taxpayer liabilities verification is the act of providing checks to see how much taxpayers are supposed to pay in lieu of their various obligations as well as verifying if indeed what is owed by them is what has been declared by the taxpayers through self-assessment (Jotham, 2016). To achieve full compliance on tax there has to be a way of verifying a taxpayer's income and expenditure. This requires more than a mere checking of a taxpayer's books and records. There are direct and indirect methods of verifying the taxpayer's liability. Direct methods rely upon verification of income or expenses especially with regards to the various accounting records or books of accounts which normally taxpayers are required to use whenever they declare their tax returns (Errad, 2012).

The study furthered revealed that 80% of the respondents agreed that there are measures to be taken on verification of taxpayer liabilities to enhance Tax compliance in Kenya, 82% agreed that verification of taxpayer liabilities influence Tax compliance in Kenya. Higher compliance is largely explained by a rise in non-compliance costs. The tax administration can as well increase compliance given that it can be more responsive to taxpayers' needs. A study by Jenkins (2017) established that liabilities verification is a

good step towards enhancing tax compliance. This he argues makes it possible for the commissioners of tax or tax officers to ensure that whatever has been declared by the various taxpayers with regards to each tax head is the correct reflection of what the business is supposed to declare. This therefore helps to enhance tax compliance in conformation to the various tax laws for that particular jurisdiction.

The study further argues that the absence of liability verification means that taxpayers will only be able to declare and submit what they deem to be fit in their own judgement without particularly following the various requirements by law. This is therefore likely to open up loopholes for tax evasion which will reduce compliance levels. To achieve full compliance on tax there has to be a way of verifying a taxpayer's income and expenditure. This requires more than a mere checking of a taxpayer's books and records. There are direct and indirect methods of verifying the taxpayer's liability. Direct methods rely upon verification of income or expenses especially with regards to the various accounting records or books of accounts which normally taxpayers are required to use whenever they declare their tax returns (Errad, 2012).

4.3.3 Tax Laws Enforcement of and Tax Compliance

The third objective of the study was to examine how enforcement of Tax laws impacts on tax compliance. Table 4.9 presents findings with regards to how tax law enforcement affects tax compliance.

Table 4.9: Enforcement of Tax Laws and Tax Compliance

Constructs	SD	D	N	A	SA
Enforcement of tax laws influence Tax compliance in Kenya	6%	14%	3%	62%	15%
Using on-line payment reduces the tax payment process which saves on man-hour	2%	11%	4%	65%	18%
Using on-line tax payment methods reduces the receipting process at KRA	10%	4%	4%	55%	27%
On-line payment process improves efficiency in dealing with KRA	2%	4%	3%	62%	31%
On-line tax payments has improved tax compliance levels	12%	9%	5%	49%	25%

Table 4.9 reveals that 77% of the respondents agreed that enforcement of tax laws influence tax compliance in Kenya, the adoption of the iTax system by KRA has been very essential in supporting the operation and delivery key business mandates while also enhancing tax compliance. Enforcement of tax laws has been made easy with the entry of new technology which has specifically been designed to assist various authorities to implement tax laws (Myles, 2011). In Kenya for instance there has been a continuous effort by the Kenya Revenue Authority (KRA) to develop technology that aids in the administration as well as the enforcement of tax laws. This study focused on the latest technology iTax which has been implemented in the recent past with the main of enhancing effective administration and enforcement of tax laws in Kenya (Masinde and Makau, 2010). Kenya Revenue Authority has set out the main objective of this system as being to increase voluntary compliance, reduce tax authorities' burden of assessing tax

returns and increase tax collection efficiency through reduction of tax collection costs (Masinde and Makau, 2010).

The study also revealed that 83% of the respondents agreed that using on-line payment reduces the tax payment process which saves on man-hour, 82% of the respondents agreed that using on-line tax payment methods reduces the receipting process at KRA, enforcement for non-compliance is one way through which the authority can use in order to enhance compliance. The iTax platform plays an important role when it comes to enforcing the law on non-compliant taxpayers given that it has a way of generating reports of all defaulters (Slemrod, 1992). The iTax system allows a revenue official to generate reports for those taxpayers who have not filled returns when due and those who filled the returns but have not paid. This is a very important because it enables the people in charge to effectively address non-compliance as it arises. The system also imposes interest and penalty with accuracy and the same is notification is sent to the taxpayer.

This information makes it possible for any revenue official to view the status of the taxpayer even when the taxpayer is applying for a compliance certificate and so such taxpayers cannot get their certificates before addressing their outstanding tax liabilities (Njogu, 2017).

Finally the study revealed that 83% of the respondents agreed that on-line payment process improves efficiency in dealing with KRA and finally 74% of the respondents agreed that on-line tax payments has improved tax compliance levels. Law enforcement for non-compliance is one way through which the authority can use in order to enhance compliance. The adoption of the iTax system by KRA has been very essential in supporting the operation and delivery key business mandates while also enhancing tax compliance. Roth (2013) argues that it is important for taxpayers to provide the authority

with all the relevant information whenever making their returns and payments as prescribed by the laws, regulations, and court judgments. This is because failure to do so results into non-compliance and as such there are prescribed measures by authorities to deal with non-compliance whether the act was done intentionally or otherwise shall be considered as having committed an offence.

In addition, law enforcement for non-compliance is one way through which the authority can use in order to enhance compliance. The iTax platform plays an important role when it comes to enforcing the law on non-compliant taxpayers given that it has a way of generating reports of all defaulters (Slemrod, 1992). The iTax system allows a revenue official to generate reports for those taxpayers who have not filled returns when due and those who filled the returns but have not paid. This is a very important because it enables the people in charge to effectively address non-compliance as it arises. The system also imposes interest and penalty with accuracy and the same is notification is sent to the taxpayer. This information makes it possible for any revenue official to view the status of the taxpayer even when the taxpayer is applying for a compliance certificate and so such taxpayers cannot get their certificates before addressing their outstanding tax liabilities (Njogu, 2017).

4.3.4 Taxpayer Reports and Statistics on Tax Compliance

The fourth objective of the study was to examine how enforcement of Tax laws impacts on tax compliance. Table 4.8 presents findings with regards to how taxpayer reporting enhances tax compliance.

Table 4.10: Reporting and Statistics on Tax Compliance

Constructs	SD	D	N	A	SA
Reporting and statistics influences Tax compliance	10%	5%	16%	39%	30%
On line tax payments have helped reduce the calls on tax payment	10%	18%	3%	53%	16%
iTax has enabled taxpayers to have full knowledge of the different tax reliefs that they are entitled to claim and their rates.	6%	4%	11%	54%	25%
Online tax payments has helped KRA to control of the Collection Process	8%	4%	2%	41%	45%
Online tax payments has helped in efficient reporting time utilization	5%	10%	18%	50%	17%

Table 4.10 reveals that 69% of the respondents agreed that indeed reporting and statistics influences tax compliance, reports and statistics are a very good way of presenting taxpayer information to show the correct position of the taxpayer with regards to the registration details, returns, payments as well as compliance status. Reports and statistics are a very good way of presenting taxpayer information to show the correct position of the taxpayer with regards to the registration details, returns, payments as well as compliance status. Taxpayer reports can be presented at every given interval, these can be done daily, weekly, monthly quarterly and yearly basis depending on when they are needed and for what purpose (Njogu, 2017). Taxpayer reports can be presented at every given interval, these can be done daily, weekly, monthly quarterly and yearly basis depending on when they are needed and for what purpose (Njogu, 2017).

The study also revealed that 69% agreed that On line tax payments have helped reduce the calls on tax payment, these findings agree with Mohamad (2017) who sought to examine the influence of taxpayer reporting on compliance behaviour by divided the tax knowledge in to

groups those are, knowledge explicitly focused at possible opportunities to evade tax and knowledge gained through formal education. This study revealed that indeed there is a positive relationship between taxpayer reports and compliance levels because taxpayer reports provides a general understanding of what the taxpayer owes the agency as well as how best to enhance compliance levels for the said taxpayers through the fulfilment of the taxpayer obligations.

The study further revealed that 79% of the respondents agreed that iTax has enabled taxpayers to have full knowledge of the different tax reliefs that they are entitled to claim and their rates, this is in line with Loo (2016) who conducted a study to examine the role of taxpayer reports on compliance levels and established the existence of a positive significant relationship between reporting and taxpayer compliance. The study also that increases in taxpayers' knowledge has a negative impact on their perceptions on conversation fairness. Similarly the study revealed that although the benefits have been provided in terms of public facilities such as free education and subsidized wellbeing system, the fact that the detailed information on the source of expenditure are not publicly available may have created this negative perceptions on the fairness of the income tax system in the country.

Finally the study revealed that 86% of the respondents agreed that online tax payments has helped KRA to control of the Collection Process while 67% agreed that online tax payments has helped in efficient reporting time utilization. The findings are in line with Maseko (2014) who carried out a study which sought to examine the effects of reporting on tax compliance for small taxpayers in Zimbabwe. His study revealed that there was a positive significant relationship between reporting and taxpayer compliance. The study further revealed that indeed taxpayers are with different business situations from large businesses which cause them to bear high tax compliance burdens than SMEs. In addition, the study

also revealed that there existed negative perceptions of small taxpayers regarding tax fairness; tax service quality as well as government expenditure priorities greatly affect their tax compliance decisions in the country.

4.3.5 Tax Compliance Level

As tabulated in table 4.11 respondents were required to indicate their views using a five point likert scale to respond to statements that were asked in line with tax compliance.

Table 4.11: Tax Compliance Level

Constructs	SD	D	N	A	SA
I file my returns accurately	10.10%	16.00%	22.70%	42.90%	8.40%
I file my returns on time	8.40%	18.50%	6.70%	42.90%	23.50%
I file the correct returns	17.60%	10.10%	12.60%	33.60%	26.10%
All my records like TB; Journals and Ledgers are updated	6.70%	10.10%	11.80%	68.10%	3.40%
I have Registered as a taxpayer in the KRA system	9.20%	7.60%	16.00%	59.70%	7.60%

The responses were as following on the first statement that the study inquired was if respondent file their returns accurately and the responses were as follows 10.1% of the respondents strongly disagreed, 16% of them disagreed while 22.7% were uncertain, 42.9% agreed and 8.4% strongly agreed. The second issue the study inquired was if the respondents file their returns on time and 8.4% of the respondents strongly disagreed while 18.5% of them just disagreed, 6.7% were uncertain and 42.9% agreed, 23.5% strongly agreed.

The third issues raised was if the respondents file the correct returns and 17.6% strongly disagreed, 10.1% disagreed, 12.6% were uncertain, while 33.6% agreed and 26.1% strongly agreed. The fourth statement inquired was if all the respondent records like TB; Journals and Ledgers are updated and 6.7% of the respondents strongly disagreed,

10.1% of them disagreed while 11.8% were certain, 68.1% agreed and 3.40% strongly agreed and finally the last statement that study inquired was if respondents have registered as a taxpayer in the KRA system 16.8% had not registered while 16 % were uncertain and 67.3% indicated they have registered with tax system.

4.4 Inferential Analysis

4.4.1 Relationship between iTax System Effect and Tax compliance levels

The study sought to analyze the degree of relationship between two variables with the Pearson correlation coefficient (r), which yields a statistic that ranges from -1 to 1. Correlations show the strength of the association between the variables involved. Inter-correlations coefficients (r) were calculated by using the Pearson’s Product Moment. The results are as shown in Table 4.12.

Table 4. 12: Relationship between iTax system effect and Tax compliance levels

		TIR	VTL	ENF	ReS	TC
TIR	r	1				
	Sig. (2-tailed)					
VTL	r	.792**	1			
	Sig. (2-tailed)	.000				
ENF	r	.502**	.500**	1		
	Sig. (2-tailed)	.005	.005			
ReS	r	.823**	.776**	.511**	1	
	Sig. (2-tailed)	.000	.000	.004		
TC	r	.699**	.734**	.591**	.780**	1
	Sig. (2-tailed)	.000	.000	.001	.000	

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

N = 80

Key: **TIR** = Taxpayer identification and registration; **VTL** = Verifying Taxpayers Liabilities; **Enfor** = Enforcement of tax law on non-complaint; **Res** = Reporting and Statistics; **TC** = Tax Compliance

From the Table 4.9, A Pearson correlation analysis results indicate that there is a significant and a moderate positive correlation between iTax system effect and Tax compliance levels

in Kenya. There is a significant and a strong positive correlation between Taxpayer identification and registration, and Tax compliance level in Kenya ($r = 0.699$, $p < 0.05$); Verifying taxpayers liabilities and Tax compliance level in Kenya in Kenya ($r = 0.734$, $p < 0.05$); Enforcement of Tax law on Non - Compliant and Tax compliance level in Kenya ($r = 0.591$, $p < 0.05$) and lastly the correlation between reporting and statistics and Tax compliance level in Kenya is significant and moderate positive correlation with ($r = 0.780$, $p < 0.05$).

4.4.2 Effect of iTax System and Tax Compliance Levels

Multiple regression analysis is used when one is interested in predicting a continuous dependent variable from a number of independent variables. It shows the percentage of the total variation of the dependent variable that can be explained by the independent variables and this is assessed using the coefficient of determination (R^2) which is used for judging the explanatory power of the linear regression of dependent variable on independent variables. R^2 is a measure of the goodness of fit of the regression line to the observed sample values of dependent and independent variables. The R^2 can range from 0.0 to 1.0, with 1.0 showing a perfect fit that indicates that each point is on the line.

Adjusted R Square (R^2) adjusts the value of R^2 when the sample size is small since the estimate of R^2 obtained when the sample size is small tends to be higher than the actual R^2 in the population. The rule of thumb is to report adjusted R^2 when it substantially differs from R^2 (Green & Salkind, 2010).

Effect of iTax System on Tax Compliance Levels in Kenya

Table 4. 13: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.771 ^a	.595	.588	.53557

a. Predictors: (Constant), Taxpayer identification and registration; Verifying Taxpayers Liabilities; Enforcement of tax law on non-complaint; Reporting and Statistics

Table 4.4. shows a multiple regression results that predict tax compliance level. The results of the linear regression indicate that $R^2=0.595$ and $R= 0.771$, an indication that there is a strong linear relationship between iTax system on tax compliance levels. The independent variables explained 58.8% of the variability of our dependent variable which is tax compliance levels in Kenya.

Table 4. 14: ANOVAa (F-Test) Analysis for Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	100.529	4	25.132	27.496	.000 ^b
	Residual	68.553	75	.9140		
	Total	169.082	79			

a. Dependent Variable: Tax compliance levels

b. Predictors: (Constant), Taxpayer identification and registration; Verifying Taxpayers Liabilities; Enforcement of tax law on non-complaint; Reporting and Statistics

Table 4. 15: Coefficients

	Unstandardized	Standardized		T	Sig.
	Coefficients	Coefficients	Std. Error		
	B	Beta			
Constant	.515		.188	2.746	.003
Verifying Taxpayers Liabilities (X2)	.122		.046	.134	.004
Enforcement of tax law on non-complaint (X3)	.121		.040	.136	.003
Taxpayer reports and Statistics (X4)	.632		.046	.658	.000
Taxpayer identification and registration (X1)	.010		.0045	.012	.028

a. Dependent Variable: tax compliance levels

Regression results show that a 1% change in Taxpayer identification and registration resulted to 1.0% increase in tax compliance levels; a 1% change in Verifying Taxpayers Liabilities resulted to 12.2% increase in tax compliance levels; a 1% change in enforcement of tax law on non-complaint resulted to 12.1% increase in tax compliance levels and a 1%

change in reporting and statistics resulted to 63.2% increase in tax compliance levels. From the table above reporting and statistics ($t = 13.872$; $p < 0.05$) has the strongest relationship with tax compliance levels in Kenya, then followed by enforcement of tax law on non-complaint ($t = 3.017$; $p < 0.05$) and verifying taxpayers liabilities ($t = 2.642$; $p < 0.05$) and lastly, Taxpayer identification and registration ($t = 2.17$; $p > 0.05$).

CHAPTER FIVE:

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of findings, conclusions and recommendations of the study in line with the findings of the study as outlined in chapter four.

5.2 Summary

The objective of this study was to examine the effect of iTax system on tax compliance levels in Kenya. The specific objectives that guided this particular study include: to investigate the effect taxpayer identification and registration on tax compliance in Kenya, to investigate the effect of verifying taxpayer's liabilities on tax compliance in Kenya, to establish the effect of enforcement of tax law on non-compliant taxpayers on tax compliance in Kenya and to analyse the effect of reporting and statistics on compliance in Kenya.

The study was carried out at Kenya Revenue Authority Domestic taxes department in Nairobi-Large taxpayers Office. The research problem was solved using descriptive survey design. The main source of data was primary data. The study population comprised mainly 1,238 large taxpayers. In this study a sample size of 10% was selected because it was considered reasonable enough for any study. As a result, a sample size of 62 was arrived at. Presentation of the analysed data was done in form of tables, charts, and graphs so as to help provide a clear understanding and interpretation of the study findings. The tables provided summarized research data derived from the questionnaires.

5.2.1 Effect of Taxpayer Registration on Tax Compliance in Kenya

Descriptive statistics were used to analyze the study objective. The results showed that iTax enabled taxpayers to capture all income from different sources in their tax return, iTax enabled taxpayers to keep proper records. iTax enabled taxpayers to understand the tax laws in regards to Notice of Assessment and the stipulated periods, iTax enabled taxpayers to understand the need to obtain PIN numbers for every tax head and lastly iTax enabled taxpayers to know which income should be included or excluded when it comes to the determination of taxable income.

Inferential statistics were used to arrive at the findings where deductions and relationships were established. After carrying out correlation analysis, the study results indicated that Taxpayer identification and registration positively and highly correlated with tax compliance levels in Kenya. The regression analysis results indicated that taxpayer identification and registration was found to be statistically significant in explaining tax compliance level and that holding other factors constant, a unit change in Taxpayer identification and registration led to 0.1 units change in tax compliance levels in Kenya.

5.2.2 Effect of Taxpayers Liabilities Verification on Tax Compliance in Kenya

Descriptive statistics were used to analyse the study objective. The results showed that KRA carries out verification of taxpayer liabilities in Kenya, there were measures to be taken on verification of taxpayer liabilities to enhance Tax compliance in Kenya.

Inferential statistics were used to arrive at the findings where deductions and relationships were established. After carrying out correlation analysis, the study results indicated that Verification of taxpayer liabilities positively and highly correlated with tax compliance levels in Kenya. The regression analysis results indicated that taxpayer identification and registration was found to be statistically significant in explaining tax compliance level and

that holding other factors constant, a unit change in Verification of taxpayer liabilities led to 0.122 units change in tax compliance levels in Kenya.

5.2.3 Effect of tax law enforcement on non-compliant taxpayers on tax compliance in Kenya

Descriptive statistics were used to analyse the study objective. The results showed that enforcement of tax laws influenced Tax compliance in Kenya, using on-line payment reduced the tax payment process which saved on man-hour, using on-line tax payment methods reduced the receipting process at KRA, on-line payment process improved efficiency in dealing with KRA and that on-line tax payments improved tax compliance levels.

Inferential statistics were used to arrive at the findings where deductions and relationships were established. After carrying out correlation analysis, the study results indicated that enforcement of tax laws positively and highly correlated with tax compliance levels in Kenya. The regression analysis results indicated that enforcement of tax laws was found to be statistically significant in explaining tax compliance level and that holding other factors constant, a unit change in enforcement of tax laws led to 0.121 units change in tax compliance levels in Kenya.

5.2.4 Effect of Reporting and Statistics on Tax Compliance Level in Kenya

Descriptive statistics were used to analyse the study objective. The results showed that enforcement of tax laws influenced Tax compliance in Kenya, using on-line payment reduced the tax payment process which saved on man-hour, using on-line tax payment methods reduced the receipting process at KRA, on-line payment process improved efficiency in dealing with KRA and that on-line tax payments improved tax compliance levels.

Inferential statistics were used to arrive at the findings where deductions and relationships were established. After carrying out correlation analysis, the study results indicated that taxpayer reports and statistics positively and highly correlated with tax compliance levels in Kenya. The regression analysis results indicated that taxpayer reports and statistics was found to be statistically significant in explaining tax compliance level and that holding other factors constant, a unit change in enforcement of tax laws led to 0.632 units change in tax compliance levels in Kenya.

5.3 Conclusion

The study concludes that tax compliance in Kenya is influenced by taxpayer registration, taxpayer verification, taxpayer enforcement and taxpayer reporting. Additionally, the study concludes that reporting is the highest influencing factor when it comes to tax compliance followed by enforcement, registration and then taxpayer verification.

5.4 Recommendations

The study acknowledges that among these factors, tax compliance is an important factor that can significantly affect tax revenue. The more obedient people in fulfilling their tax obligations, the higher the potential tax revenue that can be extracted from the object of the tax is in the economy of a country. The study recommends that KRA needs to enhance compliance levels by focusing on taxpayer registration and verification. Additionally KRA needs to focus on taxpayer enforcement so as to enhance tax compliance. Finally KRA needs to enhance taxpayer education so as to increase taxpayer attitude towards tax compliance.

5.5 Suggestions for Further Studies

The study recommends the need for further studies to be conducted to examine the influence of iTax system adoption on tax compliance but with particular focus on small taxpayers.

Additionally further studies should focus on the challenges of iTax system adoption and therefore seek ways of dealing with these challenges as well as various ways of enhancing iTax system functionality.

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APPENDICES:

Appendix I: Introduction Letter

Dear respondent I am student from Kenya Methodist University, Nairobi, I am pursuing a degree in Masters, Business Administration, As required of my studies I am conducting a research on the Effect of iTAX system on Tax compliance in Kenya with a case study of Large Taxpayers Time. I am therefore seeking your views and requesting you to fill the attached questionnaire. All information will be treated confidentially and used only for this purpose of the study your response will be highly appreciated.

Yours Faithfully

.....

EDINA KABAKA

APPENDIX I: QUESTIONNAIRE

Research Topic: The Role of I-TAX on Compliance in Kenya

Please tick within the boxes and fill the structured questionnaire with applicable answers.

Section A: Background Information

Kindly answer all the questions by ticking in the boxes or writing in the spaces provided.

1. Gender

Male () Female ()

2. Age (Years)

0-20 years 20-30 years 31-35 years 36 years and over

3. Level of Education

.....

4. Occupation

.....

5. For how long have you been employed or working

Less than 3 years 3-5 years

6-10 years More than 10 years

6. Do you have a functioning ICT department?

YES NO

7. Has your company embraced automation as a way of doing business?

YES NO

If NO in the 3 above, kindly state why.....

.....

.....

8. Are you registered with KRA for tax purposes?

YES NO

Kindly state the taxes your company normally pay.....

.....

.....

.....

.....

SECTION B: TAXPAYER REGISTRATION ON TAX COMPLIANCE

9) Does Taxpayer Registration influence Tax compliance in Kenya?

Yes

No

Explain.....
.....

10) To what extent do you agree that taxpayer registration on iTax influence Tax compliance Kenya?

Strongly Agree

Agree

Strongly Disagree

Disagree

11) Do you think there are measures to be taken on Taxpayer registration on iTax enhance Tax compliance in Kenya?

Yes

No

Explain
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....

Kindly state your level of agreement or disagreement with the following statements by putting a tick against that which best describes your position.

The scale ranges from Strongly Agree (1), Agree (2), Uncertain (3), Disagree (4) and Strongly Disagree (5)

Statement	1	2	3	4	5
iTax has enabled taxpayers to capture all income from different sources in their tax return					
iTax has enabled taxpayers to keep proper records pertaining to income and expenditure for a period for a period of seven years after submission of the return.					
iTax has enabled taxpayers to understand the tax laws in regards to Notice of Assessment and the stipulated periods					
iTax has enabled taxpayers to understand the need to obtain PIN numbers for every tax head					
iTax has enabled taxpayers to know which income should be included or excluded in determining the taxable income					

SECTION C: TAXPAYER LIABILITIES VERIFICATION AND TAX COMPLIANCE

12) Does verification of taxpayer liabilities influence tax compliance in Kenya?

Yes

No

Explain.....

13) Do you think there are measures to be taken on verification of taxpayer liabilities to enhance Tax compliance in Kenya?

Yes

No

Explain.....
.....

14) To what extent do you agree that verification of taxpayer liabilities influence Tax compliance in Kenya?

Strongly agree

Agree

Disagree

Disagree strongly

Explain
.....

SECTION D: TAX LAWS ENFORCEMENT ON TAX COMPLIANCE

15) Does enforcement of tax laws influence Tax compliance in Kenya?

Yes

No

Explain.....
.....

16) How do you agree that enforcement of tax laws influence Tax compliance in Kenya?

Strongly Agree

Agree

Disagree

Disagree strongly

Explain
.....

10) Kindly state your level of agreement or disagreement with the following statements by putting a tick against that which best describes your position. The scale ranges from Strongly Agree (1), Agree (2), Uncertain (3), Disagree (4) and Strongly Disagree (5)

Statement	1	2	3	4	5
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Using on-line payment reduces the tax payment process which saves on man-hour					
Using on-line tax payment methods reduces the receipting process at KRA					
On-line payment process improves efficiency in dealing with KRA					
On-line tax payments have improved tax compliance levels					

SECTION E: TAXPAYER REPORTS&STATISTICS

17) Does reporting and statistics on iTax influence Tax compliance in Kenya?

Yes

No

Explain.....

18) To what extent do you agree that reporting and statistics influences Tax compliance in Kenya?

Strongly Agree

Agree

Disagree

Strongly Disagree

Explain

Kindly state your level of agreement or disagreement with the following statements by putting a tick against that which best describes your position. The scale ranges from Strongly Agree (1), Agree (2), Uncertain (3), Disagree (4) and Strongly Disagree (5)

Statement	1	2	3	4	5
On line tax payments have helped reduce the calls on tax payment					

iTax has enabled taxpayers to have full knowledge of the different tax reliefs that they are entitled to claim and their rates.					
Online tax payments has helped KRA to control of the Collection Process					
Online tax payments has helped in efficient reporting time utilization					