TAXPAYERS KNOWLEDGE AND VALUE ADDED TAX COMPLIANCE
AMONG MICRO AND SMALL ENTERPRISES IN EMBU COUNTY, KENYA

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PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF
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OPTION) OF KENYATTA UNIVERSITY

JUNE, 2019
DECLARATION

This research project is my original work and has not been presented for a degree in any other University. No part of this research project should be reproduced without authority from the author or/ and Kenyatta University

Sign_________________________ Date________________________

PATRICK N. MASAKU D53/EMB/PT/33536/2015

I confirm that the work in this research project was done by the candidate under my supervision.

Sign_________________________ Date________________________

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DEDICATION

I dedicate this research project to my family and parents for their moral and financial support and encouragement during the draft of this project. I also dedicate this research project to my lecturers in the School of Business for their Academic support and advice.
ACKNOWLEDGEMENT

My special gratitude goes to my supervisor Dr. Stephen Kiriinya who tirelessly through his effort and initiative guided me through the whole process. Above all, thanks to my God because of the unwavering provision, love and protection in all moments of lack and despair, fear and discouragement. I would like to acknowledge all the MBA students of Kenyatta University, colleagues, friends and family especially for their moral and material support for the completion of this research project.
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### OPERATIONAL DEFINITION OF TERMS

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<tr>
<td><strong>Taxpayers Awareness:</strong></td>
<td>Refers to sensitization of taxpayers to submit value added tax regularly through print media, electronic media and social campaigns.</td>
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<td><strong>Compliance to VAT:</strong></td>
<td>Involves the extent to which taxpayers are willing to pay their taxes when they fall due without fail or delay.</td>
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<td><strong>Taxpayers Education:</strong></td>
<td>Involves knowledge acquired by taxpayers on VAT through formal training.</td>
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<td><strong>Taxpayers Regulations:</strong></td>
<td>These are any kind of imposed policies that control activities or conduct of business investors in a particular sector.</td>
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<td><strong>Micro and small enterprises:</strong></td>
<td>These are entities owned or operated by entrepreneurs with an aim of generating profits.</td>
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<td><strong>Tax System Structure:</strong></td>
<td>Are automated or manual mechanisms that can be adopted by tax collection institutions in developing and developed countries.</td>
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<tr>
<td><strong>Tax</strong></td>
<td>Is the mandatory levy which every individual or organization willingly submits to the appointed body of collecting revenue in a given State on income and expenditure.</td>
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<td><strong>Tax Information:</strong></td>
<td>It entails the information provided by revenue collection institutions on tax.</td>
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<td><strong>Taxpayers Knowledge:</strong></td>
<td>Is the ability of taxpayers to understand the legal and administrative sanctions associated to non-compliance to tax submission.</td>
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# ABBREVIATIONS AND ACRONYMS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>CMA</td>
<td>Capital Market Authority</td>
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<tr>
<td>CIT</td>
<td>Corporate Income Taxes</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>ITEP</td>
<td>Institute of Taxation and Economic Policy</td>
</tr>
<tr>
<td>KNBS</td>
<td>Kenya National Bureau of Statistics</td>
</tr>
<tr>
<td>KRA</td>
<td>Kenya Revenue Authority</td>
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<tr>
<td>KU</td>
<td>Kenyatta University</td>
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<tr>
<td>MBA</td>
<td>Master of Business Administration</td>
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<tr>
<td>MSEs</td>
<td>Micro and Small Enterprises</td>
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<tr>
<td>SPSS</td>
<td>Statistical Package of Social Sciences</td>
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<tr>
<td>TOT</td>
<td>Turnover Tax</td>
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<tr>
<td>TREO</td>
<td>Tax Remissions Export Office</td>
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<td>VAT</td>
<td>Value Added Tax</td>
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ABSTRACT

Despite efforts of the government to maximize on revenue collection through value added taxes, it is indicated in literature that little has been achieved due to non-compliance to value added tax regulation. Inability of tax institutions to meet revenue targets annually is attributed and non-committal of micro and small scale traders to comply to value added tax regulations are issue of concern. This study aimed at establishing the influence of taxpayers’ knowledge and value added tax compliance among Micro and Small Enterprises in Embu county, Kenya. The specific objectives of the study were to establish the effect of taxpayers’ education, taxpayers’ awareness, tax system structure and taxpayers’ regulations on value added tax compliance among micro and small enterprise in Embu County, Kenya. Theories adopted to inform this study included theory of planned action, economic deterrent theory and rational choice theory. The study adopted cross-sectional research design since it facilitates discovery of new knowledge thus prediction and control of the problem. The target population of the study was 557 micro and small enterprises as per the records of Ministry of Trade in Embu County. Stratified sampling technique was used to select the sample size of the population. To arrive at the ideal sample size of 233, Israel scientific formula was adopted. Unit of analysis was registered micro and small enterprises while unit of observation was owners of registered micro and small enterprises in Embu County. The primary data was collected using a structured questionnaire consisting of close and open-ended questions. In addition, secondary data was collected using content analysis method where key themes of the published content were reviewed to make deductive arguments on the findings of the study. The analysis of data was done using Statistical Packages for Social Sciences (SPSS Version 24). Descriptive statistics such as mean scores, standard deviation, frequency table and percentages were used to analyze data. Further, inferential statistics such as coefficient of determination \((r^2)\) was used to analyze data at 95% confidence level and 5% significance level. The analyzed data was presented in tables and figures. The findings revealed that there exists a positive significant relationship between taxpayers’ education \((r = .616, p < 0.023)\), taxpayers’ awareness \((r = .642, p < 0.011)\), tax system structure \((r = .581, p < 0.020)\) and taxpayers’ regulations \((r = .481, p < 0.000)\) on VAT compliance among micro and small enterprises in Embu County, Kenya. The study concludes that despite that fact that there exists a positive relationship between taxpayers’ knowledge and value added tax compliance, numerous challenges were experienced such as lack of awareness, complexity of technology and lack of willingness from taxpayers to submit value added tax on time. This study recommends that Kenya Revenue Authority should partner with other agencies like information and communication technology firms, County Governments and law reinforcement agencies to promote the spirit of value added tax compliance among small scale traders in Kenya, thus sustainable social economic developments.
CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Compliance to taxation policies has been a challenge among developing and developed countries around the globe (Charlet & Owens, 2010). Majority of the countries which have economic stability have been associated with efficient and effective taxation policies and systems that enhance individual and organizational compliance to taxation policies. Developed countries of the world ranging from The United States of America, China, Japan and Germany have efficient taxation systems that monitor and track individuals and firms to comply with submission of taxes at the right time without evasion and this can be considered to be the major reasons for the ability to mobilize adequate resources for socio-economic developments (Arum, 2012).

Compliance of the business community to VAT regulations is conceptualized to be one of the factors that accelerate economic developments in developed economies of the world (Kariyoto, 2010). Similarly, Yayuk, Margono, Eka and Sudjatno (2017) in Indonesia opine that public perception of tax systems in any economy are largely dependent on participation and awareness of taxpayers. Taxpayers are always seen to be cooperative on tax liabilities in accordance to provisions of tax legislations without necessarily threatening, warning or applying legal and administrative sanctions. Counseling, discussions and delivery of tax information to potential taxpayers are thought to be some of the factors that endorse compliance with taxpayers.

Further, it is observed by Olowookere and Fasina (2013) in Nigeria, that tax penalties, service quality and compliance costs on the other hand are attributed to enhanced performance of tax collection institutions in form of levies submitted at a given period of time regardless of the legal or administrative sanctions imposed on tax violators.
Individual financial situations and rising costs of living can make members of the public blatantly violate submitting taxes on time as required by law. Subsequently, it is noted by Aksnes (2014) in Egypt that the cost of operating business in developing countries such as India and Namibia is a key factor that influences business entities not to adhere to VAT policies.

Maseko (2014) opines that developing countries have been experiencing challenges of economic growth for several decades due to non-compliance to taxation policies from individuals and firms. Slow rate of social economic development among developing countries especially Kenya, has been associated with inappropriate policies and mechanisms of monitoring individual and firm activities (KNBS, 2012). Both formal and informal sectors in developing and developed countries contribute significantly to economic developments by complying to set standards and regulation of taxation (Gale & Harris, 2011).

Masinde and Muyundo (2012) studied on unlocking the revenue potential in Kenya and revealed that micro and small enterprise in Kenya have continued to play a major role in economic developments through indirect taxes. However, despite the growth of MSE’s, many are the challenges experienced by KRA during collection of revenues from MSE’s in form of value added tax. A number of challenges that have been associated with non-compliance to VAT among Micro and Small Enterprise sector range from; taxation policies, management and systems.

In addition, Alabede (2014) acknowledges that developing countries have been experiencing quite a number of challenges related to compliance to value added tax. Value added tax is one of the indirect taxes used by developing countries to mobilize resources for socio-economic developments despite the challenge of non-compliance.
from various stakeholders including individuals and firms. Despite the structural differences in tax systems among developing and developed countries, tax evasion and avoidance activities has been a major problem that has contributed to poor performance of state revenue mobilization among developing countries (KNBS, 2011).

According to Klemm and Parys (2009), value-added tax is regarded as one of the approaches adopted by countries in developing countries especially Kenya in raising revenue to fund development projects. Being one of the indirect taxes, it is attributed with 80% contribution of total tax revenue (Saleemi, 2005). Compliance to VAT has been the key concern among developing and developed countries of the world for the last decade. It is argued that the rationale behind economic development of any country is based on VAT compliance. Despite high cases of non-compliance to VAT from industry players including micro and small enterprises and large firms, developing countries should strive to develop mechanisms that will enhance VAT compliance from the formal and informal sector for socio-economic developments.

1.1.1 Taxpayers Knowledge

Taxpayers’ knowledge is thought to be the degree to which individuals or organizations understand and voluntarily comply with VAT. Akintoye and Tashie (2013) argue that taxpayers’ knowledge on VAT policies is one of the fundamental aspects that contributes to the economic growth of both developed and developing countries of the world directly or indirectly if appropriate mechanisms are put in place by tax collection institutions. Traders’ ability to have education, maximum awareness, structure of the tax system and regulations on taxpayers are thought to influence VAT compliance among small enterprises (KRA, 2018).

Jones and Rhoades (2011) aver that little knowledge on VAT regulation by taxpayers can result to evasion or unwillingness to comply and vice versa. Taxpayers’ knowledge
is viewed as a function of tax compliance (Lumumba et al, 2010). For any government to succeed in the world, knowledge of taxpayers is directly linked to the total revenue collected to State coffers. The hostility experienced between taxpayers and tax collectors is attributed to lack of adequate knowledge on the legal and administrative sanctions. Further, ignorance and lack of public participation during formulation of tax regulation can directly affect the total revenue collected to State coffers (KRA, 2018).

Charlet and Owens (2010) suggest that awareness on VAT enhances taxpayers’ accountability and willingness to submit VAT. The capacity of tax authority to structure tax submission mechanisms like automating the systems of tax submission is likely to influence efficiency and effectiveness. The introduction of heavy fines to VAT violators is likely to discourage non-compliance and vice versa. Heavy penalties and fines imposed on VAT violators can enhance the spirit of compliance among MSE’s and vice versa (KRA, 2018).

1.1.2 Value-Added Tax Compliance

Value Added Tax is regarded as a form of indirect tax imposed on goods and services produced in a country (Schenk & Oldman, 2007). In addition, VAT involves the cost and overheads that a trader incurs and obtains respectively after purchasing and selling goods and services. Both developed and developing countries can change VAT policies from time to time based on a number of factors that range from policies, economic, social, technological and ecological and legal. Firms that engage in any commercial activities that involve the production, distribution of goods and the provision of services are likely to comply with taxation policies of each country in which they operate (GoK, 2004).
Moreover, it is argued by Olowookere and Fasina (2013) that most of the taxpayers are likely to voluntarily cooperate to submit taxes if they perceive the political and economic frameworks of the State to be transparent. Although, researchers such as Yayuk et al. (2017) contend that age, income, education level, ethics, legal sanctions and fairness of the tax system are strong predictors of taxpayers’ VAT compliance. A tax regime can be regarded as a legal system by which government facilitates the collection of revenue from its citizens to meet their expenditures (KNBS, 2012). Taxation is seen as the only source through which governments can mobilize resources to fund public expenditures. It is regarded as a mechanism of enhancing equity and minimizing taxation impediment effects in a country. Most countries have different sources of collecting revenues which range from trade taxes, value added tax and income tax (Schenk & Oldman, 2007).

Muriithi (2003) argues that the increase in VAT by governments can contribute to an increase in the price of product or service to the end user and vice versa. All firms in both developed and developing countries are expected to comply and submit their returns to the relevant authorities without evasion. For firms to avoid legal implication, it is a requirement of any government to reinforce VAT regulations to maximize revenue collection to meet public expenditure in the long term period. Firms are expected to submit their VAT returns after a given period of time based on the amount of goods and services sold within a given period of time without evasion (Marina & Danijela, 2002).

According to KNBS (2012), compliance of MSE’s to VAT policies has contributed to significant economic growth among developing countries of the world. Kenya being one of the developing countries, the increased number of MSE’s in the recent past has
created a positive impact on the economy through increased indirect taxes. Mechanisms that have been put in place by revenue collection agencies have yielded positive results. The larger the informal economy, the more a government has to rely on indirect taxes. Technology has significantly contributed to improved revenue collection services from MSE’s. The initiatives of the Government to create VAT compliance through the media has enhanced public awareness and personal and firm accountability and transparency in submission of VAT.

1.1.3 VAT Compliance by Micro and Small Enterprises in Embu County

Micro and Small Enterprises have been defined by different scholars in different ways. Therefore, this study will adopt the definition by Central Bureau of Statistics (1999) which defines Micro and Small Enterprises (MSE’s) as those enterprises that comprise of less than ten workers while Small Enterprises comprise of eleven to fifty workers. On the other hand, the Central Bureau of Statistics (1999) regards MSE’s as enterprises that comprise of 1-50 workers.

MSE’s among developing and developed economies contribute positively to socio-economic developments by the provision of employment opportunities to the unemployed population (Kimunga, 2009). Both developed and developing countries have continued to invest in MSE’s as a strategy of enhancing economic developments through activities conducted by MSE’s. It is evident that majority (81%) of the developed countries of the world have invested in entrepreneurship through formulating policies that enhance entrepreneurial spirit among its citizens (Institute of Economic Affairs, 2011).

Entrepreneurship has been seen as a key driver of economic developments among developed and developing countries based on the revenue collected by state agencies to
fund National projects (KIPPRA, 2006). According to Kimunga (2009), it is evident that MSE’s contribute to 72% of the Gross National Product. Through the new constitution of Kenya that was established in 2010, it is evident that MSE’s are the major driving forces behind interrelated flow of trade, investment and technology at the County level.

According to KNBS (2011), micro and small enterprises are active instruments for rural and urban development as they eliminate high level of unemployment and stimulate economic developments. However, despite the role of MSE’s in the Kenyan economy, many are the challenges experienced by the small and micro enterprise sector. Some the challenges range from inability to raise adequate capital to expand the business, inability to meet their financial obligations, poor management, stiff competition, inability to adopt appropriate technology to enhance efficiency and effectiveness and deliberate evasion of paying taxes or complying to tax regulations.

Kimunga (2009) asserts that the informal sector in Kenya has significantly contributed to increased revenue collection by the Government. It is evident that the indirect taxes collected from MSE’s have greatly contributed to economic stability compared to direct taxes in the past decade. Despite the contribution of SME’s in the growth of the economy, compliance to VAT policies has been an issue of concern from various stakeholders such as Kenya Revenue Authority.

1.2 Statement of the Problem
Kenya Revenue Authority (2018) indicated that the trend of revenue collection has been declining annually despite efforts of the government to reinforce value added tax regulations. The survey revealed that various issues have been contributing to non-compliance to VAT regulations by majority (54%) of the small scale traders in Kenya.
It is approximated by Kenya Revenue Authority (2018) that despite the increased number of micro and small enterprises in Embu, revenue collection has been hampered by non-compliance by small scale traders. The survey indicated that there was a decline by 9% in the revenue collection from micro and small enterprises was below

Similarly, Kenya National Bureau of Statistics (2017) pointed out that even though the government of Kenya is implementing VAT compliance regulations, majority (67%) of the micro and small enterprises in Kenya were not complaint to VAT regulations. Further, due to violation of VAT regulation, most of the micro and small enterprises are recording declined profits due inconsistencies in service (Lumumba et al., 2010). Despite the efforts of the government to maximize on revenue collected periodically, it is observed that tax collection institutions and more specifically Kenya Revenue Authority has continued to underperform in terms of total amount of tax collected annually thus raising concerns that need to be investigated (Gitaru, 2017).

Locally, Okello (2001) noted that developing countries of the world including Kenya have been on the forefront to raise revenue from the formal and informal sectors to fund socio-economic developments. Direct and indirect taxes collected by Kenya Revenue Authority have continued to contribute significantly to economic growth despite challenges of Micro and Small Enterprises complying with VAT policies. A survey by IPSOS (2015) on Knowledge on Tax Issues in Kenya established that majority (63%) of MSE’s operating in Kenya are not compliant to VAT. Non-compliance of business with VAT regulations has resulted in slow economic growth and development for a number of decades. A sound tax system can facilitate prompt submission of value added tax by taxpayers.
A survey by Institute of Economic Affairs (2011) on taxation in Kenya established that VAT was directly correlated with economic developments despite the challenges of complying with new VAT regulation by industry players. The survey indicated that despite efforts of the government of Kenya to create tax awareness, till challenges of non-compliance to value added tax are on the rise annually by 9%.

However, from the findings of previous studies by Gitaru (2017); Kenya National Bureau of Statistics (2017); Lumumba et al., (2010); Jeffkins and Thomson (2016); Kim and Chen (2015); IPSOS (2015); Morgan (2014); Masinde and Muyundo (2012); Institute of Economic Affairs (2011) and Okello (2001), it is observed that the researchers did not examine taxpayer’s knowledge and value added tax compliance among micro and small enterprises in Kenya. Further, some studies were conducted in different geographical and cultural environment such as in China and Australia. Moreover, each study adopted a different research methodology which cannot be generalized in this study due to inconclusive findings. Therefore, it is on this background this study sought to investigate taxpayers’ knowledge and value added tax compliance among micro and small enterprises in Embu County, Kenya.

1.3 Research Objectives

1.3.1 General Objectives

This study sought to determine the effect of taxpayer’s knowledge and value added tax compliance among micro and small enterprises Embu County, Kenya

1.3.2 Specific Objectives

The research objectives that guided this study were:

(i) To determine the effect of taxpayers’ education on value added tax compliance among micro and small enterprises in Embu County, Kenya.
(ii) To establish the effect of taxpayers’ awareness on value added tax compliance among micro and small enterprises in Embu County, Kenya.

(iii) To assess the effect of tax system structure on value added tax compliance among micro and small enterprises in Embu County, Kenya.

(iv) To evaluate the effect of taxpayers’ regulations on VAT compliance among micro and small enterprises in Embu County, Kenya.

1.4 Research Questions

The research questions that guided this study were:

(i) How does taxpayers’ education influence value added tax compliance among micro and small enterprises in Embu County, Kenya?

(ii) What is the influence of taxpayers’ awareness on value added tax compliance among micro and small enterprises in Embu County, Kenya?

(iii) How does tax system structure influence value added tax compliance among micro and small enterprises in Embu County, Kenya?

(iv) What is the influence of taxpayers’ regulations on value added tax compliance among micro and small enterprises in Embu County, Kenya?

1.5 Significance of the Study

The findings of this study may be of great benefits to a number of stakeholders:

First, the findings of this study would be of value to KRA management board. Kenya Revenue Authority may use the information obtained in formulating policies that will reinforce VAT compliance among individuals and industry players. Secondly, the findings would help policy makers and players ranging from the Ministry of Finance and related ministries to develop appropriate policies that would contribute to significant increase of VAT thus economic stability and growth.
Thirdly, the findings would help financial institutions including banks, microfinance institutions and Sacco’s to develop products that enhance VAT collection hence ensuring maximization of revenue collection. For instance, systems of these financial institutions would be integrated to KRA revenue collection databases to track any financial transaction carried out by industry players. Fourthly, the findings would be helpful to both local and foreign investors when making investment decisions. The information would help them calculate the rate of return on their investments thus enhanced economic stability. Fifthly, the findings would benefit scholars and researchers in the area of finance and accounting. Researchers would find the information to be of great help in formulating hypotheses and improving existing theories to control related problems in the future.

1.6 Scope of the Study
This study sought to investigate taxpayers’ knowledge and value added tax compliance among micro and small enterprises in Embu County, Kenya. The study focused on registered micro and small enterprises in Embu County to investigate the problem. Embu County was preferred due to its contribution to socio-economic developments in the country through revenue collected from small business enterprises. The respondents of the study were owners of micro and small enterprises in Embu County. The study was conducted for a period of three months.

1.7 Limitations of the Study
Despite limited studies conducted to examine the effect of independent variables of this study on the dependent in a combined way, the study sought to review related studies that examined the association of this variables partially or in a combined approach. Non-cooperation from particular sections of participants that was witnessed was overcame by assuring respondents of confidentiality of information given and their
privacy. Further, the objective of the study was articulated in advance before data collection. Inability of participants to fill some sections of the questionnaires was overcome by clarifying some issues before giving the intended information and this enhanced accuracy of the information collected.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter outlines theoretical review, empirical review, summary of literature review and research gaps and conceptual framework.

2.2 Theoretical Review

The study was anchored on theory of planned behaviour and supported by economic deterrent theory and rational choice theory as discussed.

2.2.1 Theory of Planned Behaviour

Theory of planned behaviour was developed by Ajzen in 1991. The theory argues that human actions are influenced by individual beliefs and behaviour. It is argued that individuals in a given social set up can be influenced by definite factors which emanates from external environment in a planned manner (Nurlis, 2015). The theory suggests that individuals can behave positively or negatively towards particular issues they encounter in order to fulfill their needs. Since behaviour is purely dependent on individual psychological factors such as attitude, motives and perceptions, to a larger extent, taxpayers can be influenced to comply with VAT policies if appropriate mechanisms are put in place by tax collection authorities (Rini, 2014).

Mohd (2010) postulates that alternation of taxpayers’ attitudes; beliefs and motives can be determined by embracing of various policies by tax institutions in any successful Nation. Institutionalization of VAT policies among individuals and organizations can be influenced through training, creating awareness, reviewing tax structures and regulations (Purnamasari et al., 2015). Plans that tax authorities develop can contribute positively or negatively the behaviour of taxpayers. Non-compliance to VAT submission can be caused by negative perceptions from taxpayers. Transparency of
utilizing taxes in development in a nation can have a direct or indirect impact on submission of taxes.

On the other hand, tax authorities can change the beliefs and attitudes of taxpayers through trainings and sensitizing individuals and organizations on the benefits of VAT compliance (Randolph, 2015). The theory was applicable in this study since it shed more light on how tax authorities can develop programs that promote the essence of VAT compliance among entrepreneurs in a nation. It is believed that if tax authorities lay mechanisms that are perceived to be fair and not economically exploitative, majority of the taxpayers can comply with VAT submissions. Inefficiencies and infectiveness of the current tax systems and regulations can only be minimized if taxpayers are effectively informed on benefits of compliance to value added regulations.

2.2.2 Economic Deterrence Theory
Economic deterrence theory emanates from criminology discipline and was established by Becker (1968). The theory argues that individuals are likely to be deterred from repeating a crime if it outweighs benefits. The key principles of the theory are established on the assumption that since individuals understand the difference between right and wrong, they are expected to choose to do right always in order to avoid to be associated with crime. Despite the fact that individuals are likely to avoid engaging in criminal activities such as non-compliance to tax submission, it is viewed that to a larger extent majority of the individuals can engage in various crimes due to little knowledge on consequences or ignorance.

Mohd (2010) opines that individuals are likely to obey the law after thorough considerations of the cost-benefit analysis. In this case, taxpayers are more likely to
comply with VAT if strict regulations are enacted and implemented by legal systems. Economic crimes committed by business entities in developed and developing countries are considered to be minimized if appropriate economic models are developed to control inflow and outflow of financial resources. Choosing to comply with VAT is thought to be an individual decision, though crime can be committed due to systems weaknesses or failure to subject criminals to legal justice (Maseko, 2014).

Nurlis (2015) advocates that the ability of the organization and more specifically revenue collection institutions can deter small and larger entities from committing financial crime in form of violation of VAT regulations by taking legal steps against any individual or firm which willingly or ignorantly do not observe VAT regulations when conducting any business transactions. The applicability of this theory in the study was on the premise that MSE’s are likely to be discouraged from violating VAT policies if appropriate measures such as changing the structure systems are embraced. Promotion of tax knowledge would accelerate VAT compliance thus economic stability and development in Kenya.

2.2.3 Rational Choice Theory
Rational choice theory was pioneered by Clarke and Marcus in 1993. The theory argues that taxpayers are rational in decision making. Rationality of taxpayers is based on the satisfaction they obtain from the social exchange (Purnamasari Hamid & Susilo, 2015). Individuals or firms always seek to maximize utility of goods and services at the lowest price possible. Taxpayers always change their choices depending on the satisfaction they get after public goods or services (Saleemi, 2005).

By extension, the theory is linked to the behaviour taxpayers display when submitting VAT. Taxpayers may not comply with VAT based on economic constraints. Even
though economic stability may have indirect influence on VAT compliance from context to context, to a larger extent it is viewed that income and expenditure can be key factors that influence rationality of consumers in any system (Alfiah, 2014). Further, Akintoye and Tashie (2013) opine that firms are likely to evade VAT if they do not generate the expected profits to meet financial obligations. Practices of non-compliance to VAT policies by formal and informal sectors are influenced by tax system failures, lack of education and awareness among citizens of a country.

Randolph (2015) contends that accountability of public expenditure by the government is likely to enhance citizen participation and accountability in tax submission. Development of policies that discourage people from tax evasion will be enhanced by law enforcement. This theory underpinned this study based on the notion that the institutions of revenue collection are likely to minimize cases of non-compliance to VAT among MSE’s through establishing tax regulation that can encourage VAT compliance among micro and small traders. Creation of maximum awareness by the government on the value of VAT to individuals and firms will accelerate compliance to value added tax regulations.

2.3 Empirical Review

This section discusses empirical studies conducted internationally and locally in relation to variables of this study. Conceptual, contextual and methodological research gaps were identified and the current study sought to address them.

2.3.1 Taxpayers Education and VAT Compliance

Asirigwa (2011) revealed that educating taxpayers on the consequences of complying with VAT has a significant effect on economic stability of a country. Changing the behavior of taxpayers is based self-knowledge. IPSOS (2015) further indicated that
educating taxpayers on the implications of evading from submitting VAT will be determined by understanding the taxation regulations and information pertaining the opportunity or consequences of evading taxes. However, it was noted that the survey focused on manufacturing sector and addressed different variables like government subsidies but failed to address variables of this study.

Chilibasi (2012) also noted that taxpayers’ knowledge can be divided into; formal education that entails knowledge received by tax payers to have an in-depth understanding of the implications of evading taxes. The education received by taxpayers involves a thorough understanding of the laws and regulations of taxation and the ability to comply. However, the study was confined to different variables like tax policies, business growth but failed to address variables of this study. Jeffkins and Thomson (2016) established that there is a correlation between tax compliance by business entities and economic growth in Australia. Further, Kim and Chen (2015) revealed that there was a difference between economic stability and tax compliance among individuals and business entities in China. Morgan (2014) established that tax compliance was significantly correlated with value added tax compliance among business entities in Egypt.

Otieno (2011) studied the effect of taxpayers’ education on VAT Compliance among Small and Medium Sized Enterprises in Kenya and established that, despite the increased number of Micro and Small Enterprises in Kenya, majority (72%) of them are not compliant to VAT. It was noted that most of the industry players were willingly dodging to submit their VAT due to inappropriate mechanisms to monitor and track business transaction. However, it was noted that the study was confined to one variable and concentrated on Small and Medium Sized Enterprises in Mavoko Municipal
Council.

Charlet and Owens (2010) established that educating taxpayers through seminars, dialogue, sessions and collaborations with the Ministry of Education will enhance compliance to VAT. On the other hand, Tax authorities should use a combination of channels to educate people of the benefits associated with compliance to VAT. Multiple channels that can be used by tax authorities to educate taxpayers on the benefits associated with accountability and transparency may range from television, radio, newspapers and internet. Changing taxpayers’ attitude on compliance to VAT is correlated with the Government’s ability to be accountable on the revenue collected to its citizens. Lack of accountability by the Government on revenue collected would automatically affect attitudes of taxpayers on submitting taxes and vice versa. However, the study was confined to firms in United States of America but not in Kenya.

Gekonge and Ntabo (2016) noted that non-compliance cases were likely to be reduced if only tax rates were to be reduced and tax systems simplified to meet stakeholder needs. The study revealed that non-compliance can take several forms that range from traders selling goods and services without issuance of receipts, failure of traders to charge VAT on goods and services sold, failure of traders to file returns, under declaration of output to evade VAT and failure of traders to register despite meeting the necessary requirements to the commissioner of VAT.

Further, the study postulated that with little awareness of compliance to VAT regulations among MSE’s, the Kenyan government has embarked on initiatives that will create an effect on VAT compliance among taxpayers. These initiatives range from: imposing heavy penalties to VAT defaulters, to provision of reprieves to tax evaders. The major aim of doing this is to encourage taxpayers to voluntarily pay all the taxes
due to the tax authority at the right time without escaping. However, it was noted that the study was limited to electronic tax systems and failed to address taxpayers’ knowledge on VAT compliance.

2.3.2 Taxpayers Awareness and VAT Compliance

Asirigwa (2011) studied the determinants of Value Added Tax revenue in Kenya and revealed that there was a correlation between taxpayers’ awareness and VAT compliance. Taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government. However, the study was confined to a single variable and failed to address other variables of this study.

Kimunga (2009) revealed that it is necessary that current and future taxpayers are exposed to the roles that they could play in developing the country. This exposure could be given through seminars, dialogue sessions, or collaboration with the Ministry of Education to introduce the subject of taxation at secondary schools. It is argued that a number of challenges have been experienced during sensitization of the public on VAT compliance. Some of these challenges range from; complexity of the tax system, high tax rates, poor professionalism of the tax administrator, low level of tax payer awareness and ineffectiveness of enforcement mechanisms and lack of adequate resources to implement the awareness campaigns. However, the study was confined to challenges facing small scale business growth and survival.

A survey by IPSOS (2015) on knowledge on tax issues in Kenya revealed that majority of the Kenyan taxpayers were evading compliance with VAT due to lack of education among traders. Micro and Small enterprises were avoiding to comply with VAT regulations due to lack of appropriate mechanisms of creating awareness. Therefore, it
was concluded that taxpayers should be encouraged to comply with VAT regulations through tax education. Kenya Revenue Authority should be on the forefront to enlighten the general public on the benefits of complying with VAT.

Klemm and Parys (2009) also revealed that compliance to VAT may be enhanced and can create a difference in the people’s mindset to pay taxes willingly. To enhance compliance from micro and small enterprises, the ideal tax system should be easier to implement and simple to be understood by members of the public. Complexity of the systems can contribute to evasion and avoidance. Compliance in any tax system especially VAT always requires self-declaration and awareness by the tax payers. However, it was noted that the study was confined to the United States of America and failed to address issues of this study.

### 2.3.3 Tax System Structure and VAT Compliance

According to Ebrill, Keen, Bodin and Summers (2001), developing and developed economies can adopt different tax structures to collect revenue. Regressive and progressive approaches can be used to collect revenue. A regressive tax structure is where low income earners pay a higher percentage of their income on taxes compared to individuals earning a higher income. It is a structure that always tends to shift the burden of taxation to the low-income earners. On the other hand, a progressive tax structure is regarded as a tax system where taxpayers who earn more income pay higher taxes compared to taxpayers with less income. However, their study was limited to firms in Washington but not small enterprises in Kenya.

Okello (2001) noted that structure of tax systems involves aspects that enhance compliance to tax from various stakeholders in a given country. Both developing and developed countries have different structures of tax systems that they adopt to collect
revenues. Complex structures of tax systems may contribute to reduced revenue collection and compliance and vice versa. Reforms of tax systems in any country are supposed to enhance revenue collection from multiple sectors and accelerate compliance behavior among individual and industry players. However, the study was confined to economic policies but not VAT compliance in developing countries and more especially in Kenya.

Gekonge and Ntabo (2016) studied the effects of electronic tax system on the revenue collection efficiency of Kenya Revenue Authority and established electronic tax system has become one of the drivers of developing countries in revenue collection. Online tax systems have continued to replace paper-based tax reporting systems. With the advent of technology, developing and developed countries are striving to maximize on revenue collection through automating their tax systems.

Further the study pointed out that electronic tax system is regarded as a computerized tax administration system which is designed in such a way that it facilitates registration, assessment, filing returns and processing of claims and refunds. They concluded that tax systems have enhanced efficiency and effectiveness collecting revenue from the formal and informal sectors among developing countries of the world. The study further revealed that, the introduction of tax systems in Kenya has contributed significantly to increased financial collection, administration of services, improved services to tax payers and reduced costs of compliance.

KIPPRA (2006) also established that despite the benefits associated with tax systems, majority (72%) of developing countries were experiencing challenges of automating their systems. Paper-based tax systems were common in developing countries due to internal and external factors. Internal factors were ranging from employee skills, top
leadership, management styles and organizational culture. External factors that influenced the adoption of new technologies were ranging from the political, legal, technological and economic policies of developing countries. It was noted that unless developing countries adopt appropriate technologies in revenues collection, competitiveness will be an uphill task. However, the study was confined to tax reforms in Kenya and failed to address issues in this study.

### 2.3.4 Taxpayers Regulations and VAT Compliance

Karingi et al. (2005) revealed that it is a requirement by law that taxpayers in any country should comply with regulations of tax institutions without indulging in malpractices. Organizations are expected to generate profits using ethical practices as stipulated in law without fail from time to time. Competitive firms both small and large are expected to adhere to regulation of VAT in any country of operation. A firm is termed to be complying with VAT regulations when; it has a registered business name, submits returns on time without fail, keeps financial records, does not engage in fraudulent activities nor falsify financial statements to evade taxation. However, it was noted that the study was confined to tax reforms in Kenya but not on micro and small enterprise sector.

A survey conducted by Deloitte and Touche (2015) on adherence of entrepreneurs on VAT policies clearly indicated that majority (62%) of the micro and small enterprises committed VAT offenses ranging from document falsification, late submission of taxes, sale of products without issuance of receipts and unwillingness to submit taxes due to negative attitude and non-performance of their businesses. Masinde (2012) also concurs that heavy penalties and fines on tax evaders can contribute to a significant improvement of VAT submission. In addition, it was noted that taxpayers were willing
to comply with new VAT regulation of tax collection institutions if sensitized on the consequences of evading paying taxes on time. However, the findings of the study were limited to large sized firms but not small enterprises in Kenya.

Large and small organizations in both developed and developing countries to a larger extent are not VAT complaint (KIPPRA, 2006). The study revealed that not only small organizations and sole proprietors violated VAT regulation but also large organizations. Due to weaknesses of structures of tax collection institutions, it is difficult to track and monitor how organizations and individuals comply with VAT regulations. Otieno (2011) observed that micro and small enterprises were evading paying tax due to high losses experienced in operating businesses. Most of the entrepreneurs are perceiving taxes as an extra cost that contributed to deteriorating profits and return on investments. Further, Gekonge and Ntabo (2016) acknowledge that despite the contribution of VAT in economic and social developments in developed and developing countries, compliance to VAT regulations by small and large organizations is still quite a challenging task.

2.4 Summary of Literature Review and Research Gaps
The existing literature has indicated there exists a relationship between taxpayers’ knowledge and value added tax compliance. Organizations and individuals are likely to comply with VAT if effective mechanisms are put in place. However, it is noted that despite the findings of existing literature there exists conflicting information with regard to taxpayers’ knowledge and value added tax compliance posing research gaps. It is evident from the findings of empirical studies that little has been done with regard to Taxpayers knowledge and value added tax compliance among micro and small enterprises in Embu County, Kenya. It can be concluded that, conceptual, contextual
and methodological research gaps exist in these areas from the findings of empirical studies.

Studies which have been conducted sought to examine the variables of the current study partially or in isolation and introduced moderating and intervening variables between the relationships which poses conceptual gaps. Further, the studies were confined to different countries and sectors which pose contextual gaps. In addition, the studies adopted different research methodologies such as research designs, sampling techniques and data analysis methods posing methodological gaps. Therefore, it is on this premise this study seeks to establish the influence of taxpayers’ knowledge and value added tax compliance among micro and small enterprises in Embu County.

2.5 Conceptual Framework

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Dependent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxpayers Education</td>
<td>Taxpayers Compliance to VAT among Micro and Small Enterprises</td>
</tr>
<tr>
<td>- Legal and administrative laws</td>
<td>- Increased levies collected</td>
</tr>
<tr>
<td>Taxpayers Awareness</td>
<td>- Minimal legal costs</td>
</tr>
<tr>
<td>- Print and electronic media</td>
<td>- Improved relations</td>
</tr>
<tr>
<td>Tax System Structure</td>
<td>- Enterprise efficiency and effectiveness</td>
</tr>
<tr>
<td>- Manual and automated systems</td>
<td>Taxpayers Regulations</td>
</tr>
<tr>
<td>- Financial and non-financial penalties</td>
<td></td>
</tr>
</tbody>
</table>

Figure 2.1: Conceptual Framework (Researcher, 2019)
As illustrated in Figure 2.1, it was revealed that education of the taxpayers on the legal and administrative laws influenced taxpayers to comply with VAT. Little knowledge on VAT regulation by taxpayers resulted to evasion or unwillingness to comply and vice versa. The ability of tax authorities like KRA to sensitize taxpayers on VAT compliance through newspapers, radios, television and outdoor publicity enhanced the spirit of compliance among MSE’s and vice versa. The capacity of tax authority to structure tax submission mechanisms like automating the systems of tax submission also influenced efficiency and effectiveness.

Replacement of manual modes of tax submission with automated systems was one of the ways of enhancing VAT compliance among MSE’s. The introduction of heavy fines to VAT violators also was identified to be one of the approaches that discouraged non-compliance and vice versa. Heavy penalties and fines imposed on VAT violators enhanced the spirit of compliance among MSE’s and vice versa. Further, indicators such as increased levies collected, minimal legal costs, improved relations and enterprise efficiency and effectiveness were identified to be measures of taxpayers’ compliance to VAT.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology that was adopted to analyse data collected. It includes the research design, the target population of the study sampling design, data collection and procedure, validity and reliability of the research instrument. It finally presents the data analysis and presentation methods.

3.2 Research Design

Bajpai (2011) regards the research design as the overall framework or plan of collecting, analyzing and interpreting data for strategic decision making. The study adopted cross-sectional research design to collect information at a particular point in time for analysis and presentation in a quantitative manner. Further, the design was considered appropriate based on the fact that it enabled the researcher to collect the information and analyze it to test the statistical relationship between variables. Further, it facilitated discovery of new knowledge thus prediction and control of the problem that was under investigation.

Moreover, cross-section research design facilitated analysis and presentation of data quantitatively. Crowther and Lancaster (2012) acknowledge that cross-sectional research design is considered appropriate if the researcher intends to use existing theories and verification of empirical findings to make deductive arguments about the problem under investigation. In addition, it focuses on answering the questions why, where, what and how. Moreover, the design was appropriate because a sizeable population with homogenous features was used in collecting data.
3.3 Target Population

The target population refers to the universe from which the sample is selected (Fisher, 2010). On the other hand, Collis and Hussey (2014) argue that a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. The target population was 557 respondents who comprised of owners or operators of registered micro and small enterprises in Embu County. The unit of analysis were operators or owners of micro and small enterprises while unit of observation were micro and small enterprises in Embu County.

3.4 Sampling Design

According to Fisher (2010), sample size refers to the number of items to be selected from the universe to constitute a sample. The size of sample should neither be excessively large, nor too small. It should be optimum. According to Fisher (2010), the aim of the research should be to recruit clearly identified individuals who could best address the purpose and goals of the research. Individuals who are invited to participate in a research must be able and willing to provide the desired information and must be representative of the population of interest.

The respondents of this study were selected using random sampling technique which gave each respondent an equal opportunity of being selected. Out of the total population of 557 respondents, an ideal sample size of 233 respondents was arrived at using Israel (2009) formula of the form: \( n = \frac{N}{1+N \times (e)^2} \), where: \( n \) represents sample size, \( N \) represents population size, \( e \) represents confidence level (0.05). Using 557 in the formula as \( N \), the resulting sample size (n) was 233 respondents.
3.5 Data Collection and Procedure

Primary data was collected using structured questionnaires with closed-ended questions. Questionnaires were the main instruments of data collection based on the fact that they provided an opportunity to collect data systematically and analyze it for strategic decision making. Fisher (2010) avers that questionnaires are considered appropriate in collecting data based on the fact that they facilitate collection of data in a systematic manner for analysis. Further, it provides that opportunity to respondents to answer questions freely and without interference from researchers.

The items of the questionnaire were measured using a Likert scale where 5 denotes strongly agree, 4 denotes agree, 3 denotes moderately agree, 2 denotes disagree and 1 denotes strongly disagree. Trained research assistants were used to administer the questionnaires to respondents using drop and pick later method. Follow-ups were made using phone calls.

3.6 Validity and Reliability of the Research Instrument

3.6.1 Validity Testing

Validity entails the degree to which an instrument accurately measures what it purports to measure (Mertler & Vannatta, 2010). Face and content validity of the instrument was measured using two financial experts and two university scholars. Further construct validity was measured using principles of the adopted theories of the study which included resource based theory, technology acceptance theory and stakeholder theory. A pilot study was conducted using 4 respondents and did not form the final sample size of the study. The feedback obtained from financial experts and university scholars was used to modify the questions in the instrument to reflect the specific objectives that the study sought to measure.
3.6.2 Reliability Testing

Novikov and Novikov (2013) describe reliability as the degree to which an instrument can replicate its findings after repeated trials with respondents possessing common observable characteristics. The researcher used Cronbach's alpha coefficient to test the internal consistence of the instrument. Cronbach alpha values more than 0.7 were used as the cut-off point as recommended by Mertler and Vannatta (2010) to suggest reliability of the variables of the study. Variables that did not meet the threshold of 0.7 were assumed not to be reliable for further analysis.

Table 3.1: Reliability Coefficients

<table>
<thead>
<tr>
<th>Variables</th>
<th>No. of Items</th>
<th>Cronbach Alpha</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education of Taxpayers</td>
<td>1</td>
<td>0.842</td>
<td>Reliable</td>
</tr>
<tr>
<td>Awareness of Taxpayers</td>
<td>1</td>
<td>0.724</td>
<td>Reliable</td>
</tr>
<tr>
<td>Structure of Tax System</td>
<td>1</td>
<td>0.718</td>
<td>Reliable</td>
</tr>
<tr>
<td>Regulations on Taxpayers</td>
<td>1</td>
<td>0.795</td>
<td>Reliable</td>
</tr>
<tr>
<td>VAT Compliance</td>
<td>1</td>
<td>0.719</td>
<td>Reliable</td>
</tr>
</tbody>
</table>

Source: Research data (2018)

As shown in Table 3.1, all the five variables were reliable since reliability coefficients were more than the critical value of 0.7 as recommended by Guest (2010).

3.7 Data Analysis and Presentation

Data collected using questionnaires was cleaned, sorted and coded in the computer software for analysis. Statistical Package of Computer Packages (SPSS version 24) was used to analyze data quantitatively. Descriptive statistics was conducted in form of frequencies tables, percentages, mean scores and standard deviation. Further correlation and regression analysis method were conducted at 95% confidence and at 5%
significance level to measure the statistical effect between variables of the study. The analyzed data was presented in form of tables and figures. The general linear regression model that was adopted was of the form:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon, \]

Where;

\( Y \) = Taxpayers compliance to VAT

\( \beta_1 \) to \( \beta_4 \) = represents regression coefficients

\( X_1 \) = Taxpayers Education

\( X_2 \) = Taxpayers Awareness

\( X_3 \) = Tax System Structure

\( X_4 \) = Taxpayers Regulation

\( \varepsilon \) = error term (0.05)

**3.8 Ethical Consideration**

Before data analysis, the researcher sought permission from Micro and Small Enterprise operators in Embu County and Kenyatta University before data collection. Further, the researcher sought permission from National Commission for Science, Technology and Innovation to authorize for data collection. Informed consent from respondents was sought before data collection. Responsibility to the respondents included voluntary participation and informed consent prior to participation. To ensure that participants were not prejudiced, simple language and statements were used to describe the aim of the research and its procedures. Responsibility to the profession included accuracy in analysis, presentation and reporting of the study findings. Confidentiality and anonymity of the respondents was guaranteed and publication of final report was assured.
CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter presents the research findings of the study carried out to determine the effect of taxpayer’s knowledge and value added tax compliance among micro and small enterprises in Kenya. This study was guided by the following research objectives: to establish the effect of education of taxpayers, awareness of taxpayers, structure of tax systems, regulations on taxpayers and value added tax compliance among micro and small enterprises in Embu County, Kenya.

4.2 Response Rate

The unit of analysis for this study was small scale traders or entrepreneurs who operated or owned small business in Embu County. A total number of 233 questionnaires were administered to respondents but only 189 questionnaires were received from the field, 15 were inappropriately filled while 29 were not returned after administration. A total of 189 questionnaires were used in the analysis and this represented 81% response rate which was above 50% as recommended by Fisher (2010).

4.3 Population Demographics

4.3.1 Gender of Respondents

Respondents of the study were asked to indicate their gender and the findings were summarized as shown in Figure 4.1:
Figure 4.1: Gender of Respondents

Source: Research data (2019)

As depicted in Figure 4.1, the results indicated that majority (54%) of respondents were male while 46% of them were female respondents. These findings imply that most of the small business enterprises were owned and operated by men while a few women businesses were owned and operated by women despite cultural norms that prohibited women from active entrepreneurial activities.

4.3.2 Respondents Level of Education

Respondents of the study were asked to indicate their level of education and the findings were summarized as shown in Figure 4.2:
Figure 4.2: Respondent Level of Education

Source: Research data (2019)

As shown in Figure 4.2, majority of the respondents (47%) indicated that they operated their businesses more effectively even though they did not have specific formal. Further, 28% of them indicated that they were first degree holders, 21% of them were diploma holders, 16% of them were certificate holders and none of them was postgraduate holders.

The findings imply that majority of the entrepreneurs who managed or owned small businesses in Embu did not have specific formal education despite effective performance of their business enterprise. Furthermore, it was noted that most of the young youths who graduated from universities and tertiary colleges had ventured into entrepreneurship sector as a way of sustaining their livelihoods. High level of unemployment rate was attributed to increased number of graduates in small business ventures.
4.3.3 Age of Respondents

Respondents of the study were asked to indicate their age and the findings were summarized as shown in Figure 4.3:

![Age of Respondents](image)

**Figure 4.3: Age of Respondents**

Source: Research data (2019)

As illustrated in Figure 4.3, the results indicated that the majority (27%) of the respondents were aged between 26-30 years, 23% of them were aged between 31-35 years, 21% of them were aged between 36-40 years, 11% of them were aged between 21-25 and above 50 years while 07% of them were aged less than 20 years. This finding imply that majority of the owners or operators of micro and small enterprises in Embu County were young youths who had graduated from institutions of higher learning and had ventured into entrepreneurship sector as an alternative source of employment after unsuccessful efforts to secure formal employment.
4.3.4 Duration of Operation

Respondents of the study were asked to indicate the period they had operated their businesses and the findings were summarized as shown in Figure 4.4:

Figure 4.4: Duration of Operation

Source: Research data (2019)

As depicted in Figure 4.4, the results revealed that majority (35%) of the respondents had operated their business for a period less than 1 year, 29% of them for a period between 2-6 years, 19% of them for a period between 7-11 years and 16% of them for a period more than 12 years. This finding imply that most of the businesses established had minimal chances of survival due to various challenges such as competition, change regulations and operational costs. A few businesses that had operated for quite some time had entrepreneurs with good management and financial skills.
4.4 Taxpayers Knowledge and VAT Compliance

4.4.1 Level of Compliance to VAT

Respondents of the study were asked to indicate the level to which they complied with VAT regulation and the findings were summarized as shown in Figure 4.5:

Figure 4.5: Level of Compliance to VAT

Source: Research data (2019)

As shown in Figure 4.5, the findings indicated that majority (57%) of the respondents indicated that they did not comply with VAT submission while 82% of them indicated that they complied full with VAT submission. This finding imply that some entrepreneurs were willing to comply if their businesses were performing well and on the other hand some were not willing to comply due to losses experienced. It was also noted that due to changing business trends like competition, inflation rates and consumer demands were all factors that contributed to performance of micro and small business enterprises as observed by Deloitte and Touche (2015).
4.4.2 Education of Taxpayers

Respondents of the study were asked to indicate the extent to which taxpayers education influenced compliance to VAT by small scale traders and the findings were summarized as shown in Table 4.1:

Table 4.1: Taxpayers Education

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Moderately Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>My business has an active tax payer identification pin number</td>
<td>56%</td>
<td>24%</td>
<td>11%</td>
<td>07%</td>
<td>02%</td>
<td>3.61</td>
<td>.664</td>
</tr>
<tr>
<td>I understand the penalties associated when I do not comply with VAT regulations</td>
<td>61%</td>
<td>20%</td>
<td>09%</td>
<td>09%</td>
<td>01%</td>
<td>3.58</td>
<td>.587</td>
</tr>
<tr>
<td>I keep records pertaining to income generated and expenditure</td>
<td>49%</td>
<td>36%</td>
<td>08%</td>
<td>01%</td>
<td>06%</td>
<td>3.33</td>
<td>.596</td>
</tr>
<tr>
<td>My business files and submits tax returns on time</td>
<td>21%</td>
<td>10%</td>
<td>60%</td>
<td>00%</td>
<td>09%</td>
<td>2.78</td>
<td>.884</td>
</tr>
<tr>
<td>My business declares actual income generated</td>
<td>21%</td>
<td>11%</td>
<td>25%</td>
<td>40%</td>
<td>03%</td>
<td>2.47</td>
<td>.673</td>
</tr>
<tr>
<td>Tax institution had done enough in educating people consequences of non-compliance</td>
<td>13%</td>
<td>18%</td>
<td>49%</td>
<td>11%</td>
<td>08%</td>
<td>2.38</td>
<td>.456</td>
</tr>
<tr>
<td>I understand the role of taxes in growth of the economy</td>
<td>16%</td>
<td>03%</td>
<td>09%</td>
<td>51%</td>
<td>21%</td>
<td>2.31</td>
<td>.356</td>
</tr>
<tr>
<td>Agggregate Mean</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.08</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Data (2019)

As shown in Table 4.1, it was indicated that the mean score for 3 of the 7 statements was more than 3.00 indicating that a few respondents agreed with the statement while the rest either disagreed or were neutral. 56% of the respondents agreed that they had active tax identification pin numbers with mean score of 3.61. 61% of them agreed that they understood penalties associated with non-compliance with mean score of 3.58. 49% of them agreed that they kept records of income generated with a mean score of
3.33. 60% of them disagreed that with filing and submitting tax returns with a mean score of 2.78. 40% of them disagreed with declaration of actual income with a mean score of 2.47. 49% of them disagreed on having education VAT non-compliance consequences with a mean score of 2.38 and 51% disagreed on having an understanding on the role of taxes in growth of the economy with a mean score of 2.31.

These findings also imply that to a larger extent more than 50% of the small scale traders or entrepreneurs did not comply to VAT. The taxpayers were willing to comply with VAT regulations if their businesses had a conducive operating environment. It was also noted that some taxpayers delayed to submit or avoided to comply due to poor performance of their businesses. Further, it was noted that some taxpayers were not willing to declare actual income generated due to lack of transparency of the government in spending the revenue collected. Despite taxpayers were to some extent aware of the consequences of non-compliance to VAT, in most cases were unwilling to submit taxes when their businesses were not performing.

The findings are consistent with that of Chilibasi, 2012; Otieno (2011); Charlet and Owens (2010) who revealed that education of the taxpayer was one of the factors that contributed to compliance to VAT regulation. Taxpayers were likely to understand legal implications of non-compliance compared to non-educated taxpayers.

4.4.3 Awareness of Taxpayers

Respondents of the study were asked to indicate the extent to which taxpayers’ awareness influenced compliance to VAT by small scale traders and the findings were summarized as shown in Table 4.2:
### Table 4.2: Taxpayers’ Awareness

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Moderately Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>I understand the VAT policies of the Kenya</td>
<td>46%</td>
<td>24%</td>
<td>21%</td>
<td>08%</td>
<td>08%</td>
<td>3.41</td>
<td>.781</td>
</tr>
<tr>
<td>I am aware of taxation laws and regulation of Kenya</td>
<td>41%</td>
<td>33%</td>
<td>17%</td>
<td>04%</td>
<td>05%</td>
<td>3.41</td>
<td>.780</td>
</tr>
<tr>
<td>I have no problem of completing and filling tax returns when required</td>
<td>11%</td>
<td>08%</td>
<td>11%</td>
<td>31%</td>
<td>39%</td>
<td>2.80</td>
<td>.687</td>
</tr>
<tr>
<td>I am aware the amount of tax am supposed to submit after selling goods and services</td>
<td>09%</td>
<td>17%</td>
<td>13%</td>
<td>51%</td>
<td>10%</td>
<td>2.10</td>
<td>.621</td>
</tr>
<tr>
<td>I understand that every trader is taxed based on the earned income</td>
<td>09%</td>
<td>21%</td>
<td>31%</td>
<td>31%</td>
<td>06%</td>
<td>2.10</td>
<td>.574</td>
</tr>
<tr>
<td>I am fully aware about consequences of non-compliance to taxes</td>
<td>08%</td>
<td>14%</td>
<td>01%</td>
<td>44%</td>
<td>30%</td>
<td>2.09</td>
<td>.342</td>
</tr>
<tr>
<td>The government has done enough in conducting awareness campaigns about tax compliance</td>
<td>03%</td>
<td>07%</td>
<td>13%</td>
<td>21%</td>
<td>56%</td>
<td>2.05</td>
<td>.321</td>
</tr>
<tr>
<td><strong>Aggregat Mean</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>3.1</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Research Data (2019)

As shown in Table 4.2, it was indicated that the mean score for 2 of the 7 statements was more than 3.00 indicating that a few respondents agreed with the statement while the rest either disagreed or were neutral. 46% of the respondents agreed that they understood VAT regulations with a mean score of 3.41. 41% of them agreed that they were aware about VAT laws with a mean score of 3.41. 39% of them disagreed that they did not have challenges when filling returns with a mean score of 2.80. 51% of them disagreed that they were aware of the amount to be paid after selling goods and services with a mean score of 2.10. 31% of them disagreed that VAT was charged according to income earned with mean score of 2.10. 44% disagreed that they were aware of non-compliance consequences with a mean score of 2.09 and 56% disagreed...
that the government had done enough to create awareness campaigns about VAT compliance with a mean score of 2.05.

These findings suggest that more than 80% of the small scale traders were of the view that there was no adequate awareness on VAT regulation thus inability to comply as required by tax collection institution. Ignorance of VAT regulations was associated with lack of maximum awareness among taxpayers concerning the consequences of evading taxes. It was noted that taxpayers were not fully convinced that taxpayers were treated equally in submitting taxes.

The findings are contrary to that of Asirigwa (2011) and KIPPRA (2006) who taxpayer’s awareness cannot translate to VAT compliance if systems of governance have questionable integrity. The studies pointed out that taxpayers were likely to give maximum cooperation in submitting taxes if the governing regimes are accountable and transparent in utilizing public resources. Changing the mind-set of taxpayers and develop positive attitude was determined by knowledge and awareness of VAT regulations.

4.4.5 Tax System Structure

Respondents of the study were asked to indicate the extent to which tax system structure influenced compliance to VAT among small scale traders and the findings were summarized as shown in Table 4.3:
Table 4.3: Tax System Structure

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Moderately Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>I understand the tax structure applied by the government on traders</td>
<td>54%</td>
<td>18%</td>
<td>12%</td>
<td>10%</td>
<td>07%</td>
<td>3.13</td>
<td>.544</td>
</tr>
<tr>
<td>The government has a criteria of categorizing traders based on earned income</td>
<td>44%</td>
<td>29%</td>
<td>11%</td>
<td>09%</td>
<td>07%</td>
<td>3.11</td>
<td>.487</td>
</tr>
<tr>
<td>MSE’s always submit taxes through online platforms</td>
<td>11%</td>
<td>21%</td>
<td>17%</td>
<td>41%</td>
<td>10%</td>
<td>2.80</td>
<td>.421</td>
</tr>
<tr>
<td>Tax systems used by KRA are more efficient and effective</td>
<td>09%</td>
<td>11%</td>
<td>09%</td>
<td>59%</td>
<td>12%</td>
<td>2.80</td>
<td>.374</td>
</tr>
<tr>
<td>MSE’s find it easier to submit their taxes through online platforms</td>
<td>05%</td>
<td>14%</td>
<td>37%</td>
<td>38%</td>
<td>06%</td>
<td>2.11</td>
<td>.343</td>
</tr>
<tr>
<td>There is flexibility of submitting periodical taxes</td>
<td>03%</td>
<td>06%</td>
<td>09%</td>
<td>63%</td>
<td>19%</td>
<td>2.03</td>
<td>.296</td>
</tr>
<tr>
<td>There is convenience in tax submission</td>
<td>03%</td>
<td>14%</td>
<td>21%</td>
<td>56%</td>
<td>06%</td>
<td>2.03</td>
<td>.264</td>
</tr>
<tr>
<td><strong>Aggregate Mean</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.1</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Data (2019)

As shown in Table 4.8, it was indicated that the mean score for 2 of the 7 statements was more than 3.00 indicating that a few respondents agreed with the statement while the rest either disagreed or were neutral. 53% of the respondent agreed that they had understood tax structures applied by Tax institutions with a mean score of 3.13. 44% agreed that the government had a criteria of categorizing traders based on earned income with a mean of 3.11. 41% of them disagreed that they submitted taxes through online platforms with a mean score of 2.80. 59% of them disagreed that tax systems used by KRA were more efficient and effective with a mean of 2.80.

Some 38% of them disagreed that it was easier for them to submit their taxes through online platforms with a mean score of 2.11. 63% of them disagreed that there was
flexibility of submitting periodical taxes with a mean score of 2.03 and 56% of them disagreed that there was convenience when submitting taxes with a mean score of 2.03.

This findings postulates that more than 80% of small scale traders or entrepreneurs did not comply with VAT due to complexity tax structures. It was noted that some traders did not have an in-depth understanding of tax policies since the criteria used to tax income generated was unclear. Furthermore, some traders also found it difficult to submit their returns through online platforms due to technological challenges. It was noted that some taxpayers were computer illiterate and the system itself sometimes had downtime delays. Despite training conducted by KRA employees on how to submit taxes through online platforms, it was noted that to some extent the trainings had less impact on VAT compliance.

The findings contradict that of Gekonge and Ntabo (2016) whom revealed that electronic tax system has become one of the drivers of developing countries in revenue collection. Online tax systems have continued to replace paper-based tax reporting systems. With the advent of technology, developing and developed countries are striving to maximize on revenue collection through automating their tax systems.

4.4.6 Regulations to Taxpayers
Respondents of the study were asked to indicate the extent to which taxpayers’ regulations determined compliance to VAT by small scale traders and the findings were summarized as shown in Table 4.4:
Table 4.4: Taxpayers Regulations

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Moderately Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>I keep financial records of my enterprise</td>
<td>81%</td>
<td>07%</td>
<td>05%</td>
<td>04%</td>
<td>03%</td>
<td>3.13</td>
<td>.664</td>
</tr>
<tr>
<td>I submit my taxes on time to avoid VAT fines</td>
<td>57%</td>
<td>16%</td>
<td>09%</td>
<td>03%</td>
<td>15%</td>
<td>3.11</td>
<td>.884</td>
</tr>
<tr>
<td>I engage external auditors to Audit books of Accounts</td>
<td>04%</td>
<td>02%</td>
<td>08%</td>
<td>31%</td>
<td>56%</td>
<td>2.80</td>
<td>.587</td>
</tr>
<tr>
<td>I observe VAT regulations regularly</td>
<td>10%</td>
<td>05%</td>
<td>08%</td>
<td>16%</td>
<td>61%</td>
<td>2.80</td>
<td>.673</td>
</tr>
<tr>
<td>I strictly adhere to KRA VAT regulations</td>
<td>03%</td>
<td>13%</td>
<td>17%</td>
<td>23%</td>
<td>44%</td>
<td>2.11</td>
<td>.596</td>
</tr>
<tr>
<td>Tax regulation are consistent with laws of the country</td>
<td>03%</td>
<td>13%</td>
<td>16%</td>
<td>19%</td>
<td>49%</td>
<td>2.03</td>
<td>.245</td>
</tr>
<tr>
<td>I strictly adhere to regulations in place</td>
<td>02%</td>
<td>15%</td>
<td>24%</td>
<td>53%</td>
<td>06%</td>
<td>2.03</td>
<td>.139</td>
</tr>
<tr>
<td><strong>Aggregate Mean</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>2.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Data (2019)

As shown in Table 4.4, it was indicated that the mean score for 1 of the 7 statements was more than 3.00 indicating that a few respondents agreed with the statement while the rest either disagreed or were neutral. 81% of the respondents agreed that they kept financial records with a mean score of 4.21. 57% of them agreed that they submitted taxes on time to avoid penalties with a mean score of 1.26.

Some 56% of them disagreed that they engaged external auditors to audit books of accounts with a mean score of 1.23. 61% of them disagreed that they observed VAT regulations regularly with a mean score of 1.11. 44% of them disagreed that they strictly adhered to KRA VAT regulations with a mean score of 1.04. 49% of them disagreed that tax regulations were consistent to laws of the country with a mean score of 1.01 and 53% of them disagreed that they strictly adhered to VAT regulations with a mean score of 1.00. The findings infer that more than 80% of them respondents did not comply to VAT due to inability to have adequate information on VAT regulation.
Despite keeping of financial records, taxpayers were delaying to submit taxes and were unable to engage external auditors due to inability of their businesses to break-even.

Further, it was noted that most of the entrepreneurs did not strictly adhere to VAT regulations due to lack of transparence and accountability on government expenditure. These findings correspond with that of Mohani (2003), Deloitte and Touche (2015) who revealed that cases of document falsification, late submission of taxes, sale of products without issuance of receipts and unwillingness to submit taxes were associated with non-implementation of VAT regulations by tax institutions.

4.4.7 Taxpayers Compliance to VAT

Respondents of the study were asked to indicate parameters that were used to measure their compliance to VAT regulations and the findings were summarized as shown in Table 4.5:

Table 4.5: Taxpayers Compliance to VAT

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Moderately Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhanced customer service delivery is attributed to VAT compliance</td>
<td>37%</td>
<td>40%</td>
<td>10%</td>
<td>05%</td>
<td>08%</td>
<td>4.91</td>
<td>.544</td>
</tr>
<tr>
<td>Reduced costs of operating the enterprise reflects VAT compliance</td>
<td>33%</td>
<td>29%</td>
<td>13%</td>
<td>16%</td>
<td>09%</td>
<td>4.88</td>
<td>.487</td>
</tr>
<tr>
<td>Taxpayers compliance contributes to increased revenue collection by the State</td>
<td>30%</td>
<td>58%</td>
<td>14%</td>
<td>06%</td>
<td>06%</td>
<td>4.73</td>
<td>.421</td>
</tr>
<tr>
<td>Minimal legal costs incurred by taxpayers reflects compliance to VAT</td>
<td>28%</td>
<td>43%</td>
<td>12%</td>
<td>11%</td>
<td>06%</td>
<td>4.56</td>
<td>.374</td>
</tr>
<tr>
<td>Improved relations between taxpayers and tax collectors translate to compliance to VAT</td>
<td>31%</td>
<td>39%</td>
<td>10%</td>
<td>13%</td>
<td>07%</td>
<td>4.42</td>
<td>.343</td>
</tr>
<tr>
<td>Aggregate Mean</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4.7</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Data (2019)
As illustrated in Table 4.5, the results revealed that the mean score for the 5 statements was more than 4.00 indicating that most of the respondents agreed with the statement while the rest either disagreed or were neutral. The findings imply that more than 95% of them respondents agreed that despite challenges that were attributed to non-compliance taxpayers’ knowledge, most of the small scale traders measured VAT compliance using customer service quality, reduced costs of operation, increased profits and improved relations between taxpayers and tax collectors. The findings are supported by organ (2014); Masinde and Muyundo (2012); Institute of Economic Affairs (2011) and Okello (2001) whom revealed there exists a postive correlation between taxpayers’ knowledge and enterprise performance in terms of service quality and profit maximization.

4.5 Correlation Coefficients

The study sought to establish an understanding of the existence of a significant relationship between knowledge of taxpayers (taxpayers’ education, taxpayers’ awareness, tax system structure and taxpayers’ regulations) and the dependent variable (VAT Compliance).
As illustrated in Table 4.6, coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (VAT Compliance) that is explained by the three predictor variable (taxpayers’ education, taxpayers’ awareness, tax system structure and taxpayers’ regulations).

PEARSON CORRELATION COEFFICIENT (r) was used to determine the level of significance of bivariate relationship (taxpayers’ education, taxpayers’ awareness, tax system structure and taxpayers’ regulations). According to Guest (2010), correlation coefficient (r) = ±1.00 indicates that there is a positive or negative correlation between variables. If (r) = +1, it depicts a strong relationship while -1 depicts a weak relationship. Further, if (r) = **Correlation is significant at the 0.01 level (2-tailed).**

*Correlation is significant at the 0.05 level (2-tailed).**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Statistic</th>
<th>1</th>
<th>Taxpayers’ Education</th>
<th>Taxpayers’ Awareness</th>
<th>Tax System Structure</th>
<th>Taxpayers’ Regulations</th>
<th>VAT Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxpayers’ Education</td>
<td>Pearson</td>
<td>.149*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Correlation</td>
<td>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Significance</td>
<td>0.002</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sample size</td>
<td>21</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxpayers’ Awareness</td>
<td>Pearson</td>
<td>.136*</td>
<td>21</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Correlation</td>
<td>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Significance</td>
<td>0.010</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sample size</td>
<td>21</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax System Structure</td>
<td>Pearson</td>
<td>.152*</td>
<td>.143**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Correlation</td>
<td>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Significance</td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sample size</td>
<td>21</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxpayers’ Regulations</td>
<td>Pearson</td>
<td>.152*</td>
<td>.143**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Correlation</td>
<td>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Significance</td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sample size</td>
<td>21</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VAT Compliance</td>
<td>Pearson</td>
<td>0.032 .616**</td>
<td>.642**</td>
<td>.581**</td>
<td>.481**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Correlation</td>
<td>0.000</td>
<td>0.023</td>
<td>0.011</td>
<td>0.020</td>
<td>0.000</td>
<td>83</td>
</tr>
<tr>
<td></td>
<td>Significance</td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sample size</td>
<td>83</td>
<td>83</td>
<td>83</td>
<td>83</td>
<td>83</td>
<td>83</td>
</tr>
</tbody>
</table>

Source: Research Data (2019)
0, it depicts that there is no relationship between variables. A correlation was considered significant when the probability value was equal to or less than 0.05.

The results in Table 4.6 indicate that there exists a positive significant relationship between (taxpayers’ education, taxpayers’ awareness, tax system structure and taxpayers’ regulations) on the dependent variable (VAT Compliance). Taxpayers’ education was significant \((r = .616, p < 0.023)\), taxpayers’ awareness \((r = .642, p < 0.011)\), tax system structure \((r = .581, p < 0.020)\) and taxpayers’ regulations \((r = .481, p < 0.000)\) at the 0.05 level in a two tailed test. This results imply that there exists a strong positive relationship between consolidated brand equity predictor variables and VAT compliance among micro and small enterprises in Embu County.

### 4.6 Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.923</td>
<td>0.832</td>
<td>0.774</td>
<td>0.6173</td>
</tr>
</tbody>
</table>

Source: Research Data (2019)

As shown in Table 4.7, the multiple correlation coefficient (R) of 0.953 (95.3%), means that there is a strong linear relationship between the independent variables (taxpayers ‘education, taxpayers’ awareness, tax system structure and taxpayers regulations) and the dependent variable (VAT compliance). The independent factors that were studied explained only 83.2% of knowledge pf taxpayers on VAT compliance. This therefore meant that other factors not studied in this research contributed to 12.1% VAT compliance. Therefore, further research should be conducted to investigate the other factors (12.1%) that influence VAT compliance among small enterprises in Kenya.

Adjusted R Square of 0.774 implies that taxpayers’ education, taxpayers ‘awareness,
tax system structure and taxpayers’ regulations contributed 77.4% of the variation in the VAT compliance among small enterprises in Embu County. The standard error of the estimate is the measure of dispersion (or variability) in the predicted scores in a regression which represents the average distance that the observed values fall from the regression line (Guest, 2010). The standard error of estimate of 0.6173 reflects a small value which means that the observations are closer to the fitted line and hence the estimates are within the adopted 0.95 level of confidence.

4.7 ANOVA Test

Table 4.8 depicts results of regression analysis of the four predictor variables (taxpayers’ education, taxpayers’ awareness, tax system structure and taxpayers’ regulations) on the dependent variable (Value Added Tax Compliance).

Table 4.8: ANOVA Test

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>69322.254</td>
<td>9</td>
<td>7702.473</td>
<td>220.374</td>
<td>.000a</td>
</tr>
<tr>
<td>Residual</td>
<td>34567.406</td>
<td>989</td>
<td>34.952</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>103889.660</td>
<td>998</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Predictors: (Constant), taxpayers’ education, taxpayers’ awareness, tax system structure and taxpayers’ regulations.

b. Dependent Variable: VAT Compliance

Source: Author (2019)

As illustrated in Table 4.8, The F-ratio in the ANOVA tests whether the overall regression model was a good fit for the data. The results of F-test; shows that F (9, 989) = 220.374 > 2.61, thus the independent variables collectively significantly influence the dependent variable. The results therefore indicate that the four predictor model could be used in forecasting VAT compliance.
4.8 Regression Coefficients

To confirm whether there existed a statistical relationship between predictor variables (taxpayers’ education, taxpayers’ awareness, tax system structure and taxpayers’ regulations) on the dependent variable (VAT compliance), multiple regression analysis was undertaken as shown in Table 4.7.

Table 4.9: Regression Coefficients on the Relationship between Taxpayers Knowledge and VAT Compliance

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>1.256</td>
<td>1.2935</td>
<td>0.152</td>
<td>0.730</td>
</tr>
<tr>
<td>Taxpayers Education</td>
<td>0.789</td>
<td>0.3232</td>
<td>0.152</td>
<td>2.452</td>
</tr>
<tr>
<td>Taxpayers Awareness</td>
<td>0.722</td>
<td>0.3625</td>
<td>0.124</td>
<td>2.245</td>
</tr>
<tr>
<td>Tax System Structure</td>
<td>0.459</td>
<td>0.1537</td>
<td>0.113</td>
<td>2.782</td>
</tr>
<tr>
<td>Taxpayers Regulations</td>
<td>0.423</td>
<td>0.246</td>
<td>0.167</td>
<td>2.783</td>
</tr>
</tbody>
</table>

Source: Author (2019)

As illustrated in Table 4.7, coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables. After conducting regression analysis, the regression equation:

\( Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon \) became: \( Y = 1.256+ 0.789X_1+ 0.722X_2+ 0.459X_3+ 0.423X_4 \). From the findings of the regression equation indicated that taking all factors into account (taxpayers education, taxpayers awareness, tax system structure and taxpayers regulations) constant at zero, VAT compliance will be 0.256.

The results demonstrate that taking all other independent variables at zero, a unit increase in taxpayers’ education, taxpayers’ awareness, tax systems structure and regulations on taxpayers will lead to an increase in VAT compliance by unit factors of
0.789, 0.722, 0.459 and 0.423 at 5% level of significance and 95% level of confidence.

The significance values of the four variables was less than 0.05, indicating that there existed a positive significant relationship between taxpayers’ education, taxpayers ‘awareness, tax systems structure, taxpayers ‘regulations on VAT compliance. The findings correspond with that of Institute of Economic Affairs (2011), Masinde and Muyundo (2012) who established that there existed a positive significant relationship between knowledge of taxpayers and VAT compliance.
CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introductions

This chapter presents findings of the study based on objectives which the study sought to address. Conclusion and recommendations are made and finally suggestions for further studies is made.

5.2 Summary of Findings

The study sought to examine the effect of taxpayers’ knowledge and value added tax compliance among micro and small enterprises in Embu county, with main focus being testing the relationship between taxpayers’ education, taxpayers’ awareness, tax system structure and taxpayers’ regulations on VAT compliance as discussed.

5.2.1 Taxpayers Education

This study established that there exists a positive significant relationship between taxpayers’ education and VAT compliance among micro and small enterprises. However, it was pointed out that most of the entrepreneurs did not submit taxes on time despite possession active KRA pin number. Further, despite the knowledge of penalties associated with non-compliance to VAT, it was observed that most of the entrepreneurs were not willing to declare income generated from their business since they did not have confidence and trust on government expenditure on revenue collected. Moreover, it was noted that some of the entrepreneurs did not have adequate information and criteria used to collect taxes from small and larger enterprises.
5.2.2 Taxpayers Awareness

The study revealed that there exists a positive significant relationship between taxpayers’ awareness and VAT compliance. However, it was pointed out that despite efforts of the government to sensitize the populace on benefits of VAT compliance, most of the small business traders were not fully convinced to comply. Lack of confidence and trust on expenditure collected by government institutions was of great concern. Despite some awareness campaigns conducted by the government to sensitize business traders to comply with VAT, most of the small business traders were on the opinion that the government agencies mandated to collect revenue were unfair to small scale traders since majority of the larger scale traders were fond of evading to comply with VAT regulation due to political influences.

5.2.3 Tax System Structure

Despite the fact that there was a positive significant relationship between tax system structure and VAT compliance, it was revealed by the study that to some extent small business traders were unable to submit their taxes on time to lack of computer knowledge and skills. Despite attempts of the government to automate the systems to enhance service delivery, most the small scale traders were findings it difficult to submit taxes though online platforms. Issues of system down time and inappropriate training models adopted by employees of revenue collection agencies such as KRA were some of the factors that contributed to non-compliance to VAT by most of the small scale traders.

5.2.3 Taxpayers Regulations

It was established by the study that there exists a significant relationship between regulations on taxpayers and VAT compliance. Nevertheless, it was noted that not all
regulations formulated by tax collection institutions such as KRA were implemented. Inability to implement regulation was one of the factors that contributed to non-compliance to VAT by majority of small scale traders.

The study established that taxpayers were likely to violate VAT regulation due to weaknesses of KRA employees. Inability of the employees to track traders and ensure they have KRA pins was a big challenge that led to non-compliance among traders. It was observed that majority of the small scale traders were fond of violating regulation of compliance due to non-performance of their enterprises and inability to understand the criteria the government uses to collect revenue from well-established enterprises and small enterprises.

5.3 Conclusion

From the findings, this study concluded that despite the fact that taxpayers’ education had an influence on VAT compliance, most of the small scale traders were not willing to submit taxes on time and declare actual income of their business. Despite the knowledge small scale traders had about VAT, most that the small scale traders were not compliance to VAT regulation.

This study concludes that despite the fact that taxpayers’ awareness had a positive influence on VAT compliance, most of the small scale traders did not have adequate knowledge about consequences of evading to submit taxes. It was observed that there was little effort by the government to sensitize the populace about consequences of non-compliance to VAT using multiple sources of communication such as the print media, electronic media and outdoor publicity.

This study concludes despite the fact that tax systems structure had an influence on VAT compliance, most the small scale traders were not conversant with online
platforms in submitting taxes. Inadequate computer knowledge among small scale traders and complexity of the systems were some of the factors that contributed to high cases on non-compliance among small scale traders.

This study concludes that even though taxpayers’ regulations had a significant influence on VAT compliance, most the small scale traders did not honour or adhere to some regulations. Inability to implement laws enacted by revenue collection agencies such as KRA was one of the hindrances pf VAT compliance among small scale traders. Lack of good relations and partnerships among key stakeholders such as courts, security institutions and traders were some of the aspects that led to non-compliance to VAT by majority of small scale traders.

5.4 Recommendations

The study established that most the small scale traders did not submit taxes on time and were not willing to declare actual income generated by their businesses. Therefore, enlightening traders on the benefits of complying with VAT is a crucial to traders, thus social economic developments in Kenya. KRA management should recruit more staff and equip them with necessary skills to enlighten small scale traders on the values of complying with VAT.

The study revealed despite attempts of the government to enlighten the populace on benefits of VAT compliance, most the small scale traders were not conversant or did not have adequate information about consequences of non-compliance to VAT. Therefore, this study recommends top leadership of KRA should take the initiative increase staff in the marketing department to educate small scale traders on the value of VAT compliance and its effect on social economic developments in Kenya. Social marketing campaigns should be conducted to change the mind-set of small scale traders.
towards VAT compliance. KRA management should expand marketing budgets to promote VAT regulation though multiple channels of communication like print media, electronic media and outdoor publicity.

The study revealed that despite the fact that structure of the tax system had a positive significant effect on VAT compliance, most of the small scale traders did not adhere to VAT regulations due to lack of computer skills and system complexity. Therefore, this study recommends that KRA should always strive to establish mechanisms which will facilitate or enhance maximum cooperation from traders to comply with VAT submission. Systems of submitting VAT should be user friendly and customized to individual needs and wants. KRA management should sign memorandum of understanding with other like-minded firms like ICT firms and County government agencies in order to promote the concept of online submission of taxes.

Further, it was established by the study that VAT regulations enacted were not implemented effectively by KRA. Therefore, this study recommends that VAT regulations should be reviewed to foster of small scale traders. KRA management should steer initiatives that are aimed at encouraging small scale traders to comply with VAT regulations with minimal resistance. All stakeholders should be involved during the formulation of VAT regulations by tax institutions. KRA management should develop a clear mechanism of accountability for revenue collected. Violators of VAT regulations should be subjected to legal justice in order to discourage high default cases.

5.5 Suggestions for further Research

Since the study sought to examine a direct relationship of the four consolidated variables which include: taxpayers’ education, taxpayers’ awareness, tax system structure and taxpayers regulations on VAT compliance among micro and small enterprises in Embu County, the study suggests that other researchers should seek to
investigate other variables in isolation or in a consolidated form and their influence on VAT compliance in the context of larger enterprises in Kenya.

Other studies should seek to test the moderating and intervening variables such as technology and employee commitment on the relationship between taxpayers’ knowledge and VAT compliance. Further, other researchers should seek to replicate a similar study in other countries. Moreover, researchers should go ahead and conduct comparative studies among countries in East Africa such as Uganda, Tanzania and Kenya to compare the findings in terms of VAT compliance and economic stability.
REFERENCES


Akintoye IR, Tashie GA (2013). The effect of tax compliance in economic growth and development in Nigeria. British Journal of Arts Social Sciences, 3(11), 1-12


APPENDICES

Appendix 1: Introductory Letter
PATRICK N. MASAKU
D53/EMB/PT/33536/2015
KENYATTA UNIVERSITY

TO WHOM IT MAY CONCERN
Dear Respondent,

REF: UNDERGRADUATE PROPOSAL
I am a student pursuing a postgraduate degree in Finance at Kenyatta University. As a requirement of the program, I am required to carry out a research study on: “

Tax Payers Knowledge and Value Added Tax Compliance among Micro and Small Enterprises in Embu County, Kenya”

I hope that the findings of this study would lead to beneficial recommendation on the competitiveness of MSE’s sector in Kenya. Information given will be treated with utmost good faith and confidentiality. The final Report will be submitted to your organization on request for policy making.

Kind Regards
Appendix 2: Questionnaire for Micro and Small Enterprises Owners

SECTION A: DEMOGRAPHIC CHARACTERISTICS

Please supply the required data by filling in the blanks where space is provided or by ticking [✓] against the most appropriate answer.

1. **Indicate the type of your enterprise**

2. **Indicate your gender**
   - a) Male [   ]
   - b) Female [   ]

3. **Indicate your Age**
   - a) Less 20 Years [   ]
   - b) 21-25 Years [   ]
   - c) 26-30 Years [   ]
   - d) 31-35 Years [   ]
   - e) 36-40 Years [   ]
   - f) Above 50 Years [   ]

4. **Indicate your level of Education?**
   - a) Primary [   ]
   - b) Secondary [   ]
   - c) University [   ]
   - d) Others [   ]

5. **Indicate years your enterprise has been in operation?**
   - a) Less than 1 Years [   ]
   - b) 2-6 Years [   ]
   - c) 7-11 Years [   ]
   - d) Above 12 Years [   ]

SECTION B: TAXPAYERS KNOWLEDGE AND VAT COMPLIANCE

Using a Likert type point scale of 1-5 rank the indicate your level of agreement or disagreement with the statements where 5 represents Strongly agree, 4 denotes Agree, 3 represents Moderately agree, 2 denotes Disagree and 1 represents Strongly disagree)
PART A: EDUCATION OF TAXPAYERS

6. Does education of the taxpayer influence compliance to VAT?
   Yes [   ]       No [   ]

7. Indicate your level of agreement with the following statements relating to Education of Taxpayers on VAT Compliance.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. My business files and submits tax returns on time</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. My business has an active tax payer identification pin number</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. I understand the penalties associated when I do not comply with VAT regulations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. My business declares actual income generated</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. I keep records pertaining to income generated and expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Tax institution had done enough in educating people consequences of non-compliance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. I understand the role of taxes in growth of the economy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

PART B: AWARENESS OF TAXPAYERS

8. Does awareness of the taxpayer influence compliance to VAT?
   Yes [   ]       No [   ]
8. Indicate your level of agreement with the following statements relating to Awareness of Taxpayers on VAT Compliance among MSE’s in Kenya.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. I understand the VAT policies of the Kenya</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. I am aware of taxation laws and regulation of Kenya</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. I have no problem of completing and filling tax returns when required</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Am aware the amount of tax am supposed to submit after selling goods and services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. I understand that every trader is taxed based on the earned income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. I am fully aware about consequences of non-compliance to taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. The government has done enough in conducting awareness campaigns about tax compliance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

PART C: STRUCTURE OF TAX SYSTEM

9. Does structure of tax system influence compliance to VAT?
   Yes [  ]   No [  ]

10. Indicate your level of agreement with the following statements relating to structure of tax system on VAT Compliance among MSE’s in Kenya.
<table>
<thead>
<tr>
<th>Structure of Tax System</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Moderately Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. I understand the tax structure applied by the Government on traders</td>
<td></td>
<td>[5]</td>
<td>[4]</td>
<td>[3]</td>
<td>[2]</td>
</tr>
<tr>
<td>2. The Government has a criteria of categorizing traders based on earned income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. MSE’s always submit taxes through online platforms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Tax systems used by KRA are more efficient and effective</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. MSE’s find it easier to submit their taxes through online platforms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. There is flexibility of submitting periodical taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. There is convenience in tax submission</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**PART D: REGULATIONS TO TAXPAYERS**

11. Does regulations on taxpayers influence compliance to VAT?

   Yes [ ]  No [ ]

12. Indicate your level of agreement with the following statements relating to penalties to taxpayers on VAT Compliance among MSE’s in Kenya.

<table>
<thead>
<tr>
<th>Regulations to Taxpayers</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Moderately Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. I submit my taxes on time to avoid VAT fines</td>
<td></td>
<td>[5]</td>
<td>[4]</td>
<td>[3]</td>
<td>[2]</td>
</tr>
<tr>
<td>2. I keep financial records of my enterprise</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. I engage external auditors to</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Audit books of Accounts

4. I observe VAT regulations regularly

5. I strictly adhere to KRA VAT regulations

6. Tax regulation are consistent with laws of the country

7. I strictly adhere to regulations in place

PART E: TAXPAYERS COMPLIANCE TO VAT

13. Indicate your level of agreement with the following statements relating to parameters used to measure compliance to VAT by your enterprise.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Taxpayers compliance contributes to increased revenue collection by the State</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Minimal legal costs incurred by taxpayers reflects compliance to VAT</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Improved relations between taxpayers and tax collectors translate to compliance to VAT</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Enhanced customer service delivery is attributed to VAT compliance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Reduced costs of operating the enterprise reflects VAT compliance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix 3: List of Registered Micro and Small Enterprises in Embu County, Kenya

1. Jackdays Stores
2. Terry Fashions
3. Stella Fashions
4. Leah Shop
5. Mukami And Jane Mobile Store
6. Wambugi Cosmetics
7. Mama Joy Milk Bar
8. Nelly Mobile
9. Fashionista Boutique
10. London Baby Shop
11. Leads Collection
12. Kings And Queens Fashions
13. Joyquinta Kiosk
14. Jackies Wines And Spirit
15. Glam Around Salon
16. Dubai Caterers
17. Eagle Twenty
18. Mwende Bookshop
19. Maryanne Butchers And Cookies
20. Violet Maize Stores
21. Onesta Suppliers
22. Poly And Poly Cereals
23. Katula Cybercafé
24. Winfred Posho Mill
25. Esther Mobile
26. Doris Fruits And Salads
27. Irene Cereals
28. Margery Dairy
29. Marigu Wines And Spirits
30. Mama Joy Trends
31. Juliet Baby Wear
32. Makena Snacks And Beverages
33. Kajuju Wholesalers
34. Wholesalers
35. Wamaster Makeups
36. True Ways Stores
37. Njoki Transporters
38. Wairimu Consultants
39. Marion Surveyors
40. Purity Traders Limited
41. Sunset Destiny Stores
42. Whispers And Daughters Electronics
43. Merge Stores
44. Violet Green Leaves
45. Kagendo Salons
46. Makena Beauty Parlour
47. Mama Mumbi Hardware
48. Wa- Brian Agro- Vet
49. Shiku Auto-Spares
50. Melik Cereals
51. Agnes & Daughters Group
52. Trizy Stores
53. Marigu Cosmetics
54. Wanjiru Mobile Stores
55. Rose Auto Garage
56. Lucy Investment Limited
57. Ruth And Sons Equipment
58. Njoki Boutiques
59. Budget Selections
60. Leads Collection
61. Marks And Mini Supermarket
62. Mama-Ian Shop And Grocery
63. Lucy Hardware & Stores
64. Catherine Best Dealers
65. Best-Brains Bookshop
66. Best Harvest Stores
67. Blue Line Hotel And Shop
68. Mukami & Njeri Paints
69. Estana Youghnut
70. Edna Bakers
71. Kairuri Fruits
72. Cecily & Karimi Ltd
73. Joychic Beauties
74. Monica Colours
75. Juhundi Caters
76. Kanini Mobile Store
77. Mama Mwende Shop
78. Ann Stores Marigu Pharmacy
79. Carolmartin Foods
80. Precious Gift Shop
81. Nelly And Melly Limited
82. Softana Fish Outlet
83. Mark &Mark Fashions
84. Rwika Cereals
85. Lucy Poultry Dealers
86. Mama Fundi Autos  
87. Float Capital Limited  
88. Stekch Consultancy Limited  
89. Twinsim Mobile  
90. Janice Saloons  
91. United Fashions  
92. Menly Trends  
93. Karimi Green Grocers  
94. Wawira Wines And Spirits  
95. Mama Kama Gas Points  
96. Loise Business Centre  
97. Care Melodies Shop  
98. Shiru Medical Stores  
99. Karimi Greens Limited  
100. Joyce Cosmetics Parlour  

Source: (Embu County, 2018)
Appendix 4: Kenyatta University Postgraduate Data Collection Letter

KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke
Website: www.ku.ac.ke

FROM: Dean, Graduate School
TO: Patrick N. Masaku
C/o Accounting & Finance Department.

DATE: 17th October, 2018
REF: DSS/EMB/PI/SSS36/2015

SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL

This is to inform you that Graduate School Board, at its meeting of 11th October, 2018 approved your Research Project Proposal for the M.B.A Degree entitled “Taxpayers Knowledge and Value Added Tax Compliance among Micro and Small Enterprises in Embu County, Kenya”.

You may now proceed with your Data collection, subject to clearance with the Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking Forms per semester. The form has been developed to replace the Progress Report Forms. The Supervision Tracking Forms are available at the University’s Website under Graduate School webpage downloads.

Thank you.

JACKSON LUVUSI
DEAN, GRADUATE SCHOOL

CC: Chairman, Accounting and Finance Department

Supervisors:

1. Dr. Stephen Kirinya
   Department of Accounting and Finance
   Kenyatta University
Appendix 5: National Commission for Science, Technology and Innovation Approval Letter

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION
NACOSTI Upper Kabete.
Ogil Way, Kiambu.
P.O. Box 30623-00100
NAIROBI-KENYA.

Ref: No. NACOSTI/P/18/96871/26557

Date 15th November, 2018

Patrick Ngemi Masaku
Kenyatta University
P. O. Box 43844-00100
NAIROBI.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on “Taxpayers knowledge and Value Added Tax compliance among Micro and Small Enterprises in Embu County, Kenya” I am pleased to inform you that you have been authorized to undertake research in Embu County for the period ending 15th November, 2019.

You are advised to report to the County Commissioner and the County Director of Education, Embu County before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit a copy of the final research report to the Commission within one year of completion. The soft copy of the same should be submitted through the Online Research Information System.

GODFREY P. KALERWA MSc., MBA, MKIM
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The County Commissioner
Embue County.

The County Director of Education
Embue County.
Appendix 6: National Commission for Science, Technology and Innovation Research Permit

THIS IS TO CERTIFY THAT:
MR. PATRICK NGEMI MASAKU of KENYATTA UNIVERSITY, 1930-60100 EMBU, has been permitted to conduct research in Embu County on the topic: TAXPAYERS KNOWLEDGE AND VALUE ADDED TAX COMPLIANCE AMONG MICRO AND SMALL ENTERPRISES IN EMBU COUNTY, KENYA for the period ending: 15th November, 2019

Permit No.: NACOSTI/P/18/96871/26557
Date Of Issue: 15th November, 2018
Fee Received: Ksh. 1000

Applicant's Signature

Director General
National Commission for Science, Technology & Innovation