

**TAX PROCEDURES AND TAX COMPLIANCE OF SMALL AND MEDIUM
ENTERPRISES IN THIKA TOWN, KIAMBU COUNTY, KENYA**

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D53/OL/MSA/28129/2019

**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS,
ECONOMICS AND TOURISM IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF
BUSINESS ADMINISTRATION (FINANCE OPTION) OF KENYATTA
UNIVERSITY**

JUNE, 2024

DECLARATION

Declaration by the Candidate

This research is my original work and has not been presented for any degree or any other awards in any other University.

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Declaration by the Supervisor

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DEDICATION

To my family for encouraging and supporting me. Thank you

ACKNOWLEDGEMENT

I express my gratitude to God for guiding me throughout my postgraduate studies. I extend heartfelt appreciation to Dr. Festus Wanjohi, my supervisor, whose invaluable guidance and profound insights have been instrumental in completing this work. His dedicated personal time and sincere interest in my progress have highly contributed to completing this work. I would also like to extend special thanks to my parents for their unwavering support and encouragement during my academic journey. Lastly, I am thankful to my family, friends, lecturers, and colleagues for their contributions and support throughout the course.

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OPERATIONAL DEFINITION OF TERMS

Tax filing procedures:	This is a formal submission made to a tax authority, providing details on income, expenditures, and other pertinent financial data. It was measured in terms of online tax filing, ease of registration and filing period.
Tax Compliance:	Refers to meeting all requirement for tax through declaring earnings and allowances, settling owed taxes by the designated deadline, and fulfilling imposed tax obligations. It was measured in terms of percentage rate of tax paid.
Tax rate determination:	Refers to the understanding of the tax due in a given period by the small business. It was measured in terms of tax due calculation, tax rate accuracy and assessment of tax due.
Tax registration:	Describes a framework wherein tax authorities record fundamental information about taxpayers and their business activities. It was measured in terms of online tax registration, tax registration process and registration requirements.
Tax remittance:	Refers to as the payment of tax due by the small business after the end of operating period. It was measured in terms of remittance frequency, process simplicity and costs of remittance.
Tax procedure	Refers to the set of rules and regulations that govern the administration and enforcement of tax laws. It was measured in terms of tax filing procedures, tax registration, tax remittance and tax rate determination.

ABBREVIATIONS AND ACRONYMS

GDP	Gross Domestic Product
KRA	Kenya Revenue Authority
PEOU	Perceived Ease of Use
PPP	Payment Plans Processing and Control
PU	Perceived Usefulness
MSMEs	Micro, Small and Medium Sized Enterprises
SARS	South African Revenue Service
TAM	Technology Acceptance Model
TCA	Taxpayer Account
TCMP	Taxpayers Compliance Management Programme
TCR	Tax Credits and Refunds
TOT	Turnover Tax
TPS	Taxpayer Services
TRP	Tax Returns Processing
VAT	Value Added Tax

ABSTRACT

Small and medium-sized enterprises cater for a significant portion of the taxpayer base worldwide. However, their taxation often presents various challenges. Despite their large numbers, they tend to contribute relatively modestly to state revenues, while consuming a considerable portion of limited tax administration resources that could be utilized elsewhere in the tax system. Small and medium-sized enterprises often face numerous challenges when it comes to adhering to tax regulations. These difficulties can arise due to various factors, including limited resources, lack of expertise, and complex tax laws. This study aimed at examining how tax procedure complexity impact tax compliance among SMEs in Thika Town Kiambu County. The specific objectives are to assess the influence of tax filing procedures, registration processes, remittance protocols, and tax rate determination on tax compliance within this sector. The theoretical frameworks guiding this study include the Allingham and Sandmo theory, Prospect theory of taxation, and ability-to-pay taxation theory. Employing a cross-sectional survey design, the research endeavors to gauge the prevalence of tax compliance-related phenomena, problems, attitudes, or issues within the SME community at the time of the study. The targeted group consists of 3616 registered businesses in Kiambu County, from which 385 SME owners and managers were chosen as the sample through stratified random sampling method. Data was primarily obtained by structured questionnaires, supplemented by secondary data obtained using a standardized collection sheet. A pilot study involving 38 SMEs was done to ascertain questionnaire validity and reliability. SPSS version 28 was employed as the analytical tool. Correlation and multiple linear regression helped ascertain that Kiambu County SMEs' tax code complexity and tax compliance were connected. Before participating in the study, top management of the SMEs were asked for their informed consent to ensure that the research is done in a suitable setting free from internal interferences and influences. The findings established that tax filing procedure, tax registration, tax remittance and tax rate determination has significant effect on tax compliance of SMEs. The study concludes that having a structured tax filing process in place can help SMEs stay organized and ensure that they are meeting all of their tax obligations. Registering for taxes ensures that SMEs are operating within the legal framework set by the government. By remitting taxes on time, SMEs can ensure they are compliant with tax laws and regulations. When tax rates are set at reasonable levels, SMEs are more likely to voluntarily comply with tax laws rather than resorting to illegal means to avoid paying taxes. The study recommends that KRA should streamline the tax filing process by implementing digital solutions such as online tax filing platforms or software that can automate the process and reduce the likelihood of errors. The tax registration forms should be made user-friendly and easy to understand. One way to enhance tax adherence is by simplifying tax processes for small and medium enterprises. KRA can provide tax incentives to encourage SMEs to invest, innovate, and grow.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The increasing complexity of business transactions and the globalized nature of markets have led to the development of more intricate methods of tax evasion (Masudi & Gambo, 2019). Moreover, tax authorities have implemented more sophisticated regulations to combat abuse. However, the complexity of tax regulations, originally designed as a safeguard against tax fraud and evasion, often ends up facilitating these very behaviors by exploiting ambiguities and loopholes inherent in intricate tax systems. This creates a cycle where tax non-compliance and tax complexity feed into each other.

The correlation between tax procedures and tax compliance is crucial for effective tax administration and revenue collection. When tax procedures are clear, transparent, and easy to understand, taxpayers are more likely to comply with their obligations willingly (Hartner, Rechberger, Kirchler & Schabmann, 2018). According to Verboon and Goslinga (2022) the simplicity and clarity of tax procedures play a significant role. When tax laws and regulations are straightforward and easily comprehensible, taxpayers are more likely to understand their obligations and comply with them. Therefore, understanding and addressing the factors that influence this correlation is crucial for policymakers and tax authorities to promote voluntary compliance and ensure effective revenue collection.

Small and Medium Enterprises (SMEs) encounter numerous challenges regarding taxation. For instance, research by Odongo (2016) discovered notably low levels of tax compliance among SMEs in Uganda. Several factors contribute to this low compliance, including frequent changes in ownership, low sales turnovers, and inadequate record-keeping (Nakiwala, 2015). Additionally, many SMEs lack understanding of tax

processes and face a dearth of comprehensive education initiatives by the Uganda Revenue Authority (Odongo, 2016).

One of the most common grievances among business organizations is the complexity of regulatory and administrative requirements they must adhere to. SMEs are disproportionately affected by this burden compared to larger enterprises due to their limited financial and human resources. Tax obligations such as payment, registration, documentation, and reporting are among the significant requirements, necessitating either internal resources or external assistance like accountants and tax consultants. Tax compliance's cost implications cannot be overlooked.

Tax complexity's perception has been exacerbated by the adoption of self-assessment systems in many countries (Loo, McKerchar, & Hansford, 2016). This shift transfers tax compliance responsibilities to taxpayers without adequately preparing, resulting to an increased perception of complexity and consequences. Consequently, tax professionals have become integral players in how taxpayers and tax administrations relate.

Efforts to simplify tax systems have been advocated in various countries. For example, a study by the U.S. Department of the Treasury's Office of Tax Policy in 2006 highlighted the need for simplification, attributing complexity to difficulties in understanding the law, increased opportunities for exploitation, and challenges for tax administrations in detecting non-compliance.

In developing nations like Kenya, challenges persist in tax compliance among SMEs due to the nature of these businesses (Simiyu, 2015). Specific tax measures, such as the turnover tax introduced in Kenya through the Finance Act of 2007, target SMEs, but

challenges persist due to factors such as ownership closely tied to accounting practices, leading to less incentive for compliance (Muhangi, 2016)

Kenya lost just over 2 billion USD, Tanzania lost 1.9 billion USD, and it lost 856 USD in 2011. According to historical patterns, revenue collection rose from Ksh. 800.5 billion in the 2012–2013 fiscal year to Ksh. 1.21 trillion in the 2015–2016 fiscal year. This reflects a 13.8% yearly growth rate overall. At 54% in 2013, Kenya's tax compliance levels were still viewed as being below the KRA's aim of 65% by 2018. (Kenya Revenue Authority, 2016). These numbers make it quite evident that tax compliance levels in Kenya are typically poor.

1.1.1 Tax Procedures

The definition of tax procedure includes various aspects such as the filing of tax returns, determination of tax liabilities, audits and examinations, appeals and dispute resolution, collection of taxes, and penalties for non-compliance. It outlines the rights and responsibilities of taxpayers and tax authorities, as well as the procedures to be followed by both parties (Slemrod, 2019). According to Alm, Sanchez and De-Juan (2022) tax procedure involves the preparation and submission of tax returns by taxpayers, which provide information about their income, deductions, and credits. Tax authorities then review these returns and assess the tax liabilities based on the applicable tax laws and regulations. This may involve conducting audits or examinations to verify the accuracy and completeness of the information provided. Therefore, tax procedures in this study was measured in terms of tax filing procedures, tax registration, tax remittance and tax rate determination.

Filing taxes is a necessary process that individuals and businesses must complete each year to report their income and calculate the amount of taxes owed to the government (Wasao, 2019). According to Mustapha, Rildwan, Sadiq, Moronke, Ahmad and

Rahmon (2021) the procedure for filing taxes typically involves gathering all necessary documents, choosing a filing method, filling out the necessary forms, calculating taxes owed, submitting the tax return, paying any taxes owed and keeping records. Therefore, the procedure for filing taxes can be complex and time-consuming, but it is essential for individuals and businesses to comply with tax laws and fulfill their financial obligations to the government.

Smith, Smith, Stebbins and Smith (2019) observe that registration for taxation purposes is the process by which individuals, businesses, and other entities provide the necessary information to the government in order to comply with tax laws and regulations. This typically involves submitting forms, documents, and other relevant information to the tax authorities in order to obtain a tax identification number and ensure that taxes are paid accurately and on time. Terblanche (2023) observe that registration for taxation purposes is mandatory for anyone who earns income or conducts business activities. This helps the government track and collect taxes from individuals and businesses, and ensures that everyone pays their fair share of taxes. Failure to register for taxation purposes or provide accurate information to the tax authorities can result in penalties, fines, and other legal consequences.

Tax remittance refers to the act of fulfilling one's financial obligation to the government by remitting a certain amount of money or assets as specified by the tax laws and regulations. It is a crucial aspect of a citizen's civic responsibility and plays a significant role in funding public services and infrastructure (Slemrod, 2018). Olaoye and Ekundayo (2019) observe that tax payment encompasses various types of taxes, including income tax, sales tax, property tax, corporate tax, and many others. Each tax type has its own set of rules and guidelines that determine the amount to be paid, the frequency of payment, and the method of calculation. Therefore, tax remittance is an

essential financial obligation that individuals and businesses must fulfill to contribute to the functioning of the government and the provision of public services.

The calculation of tax rates involves determining the percentage of income or value of goods and services that individuals or businesses are required to pay as taxes to the government. This process is essential for governments to generate revenue and fund public services and programs (Zorn, 2018). According to Fullerton (2021) to calculate tax rates, several factors are taken into consideration. These factors may vary depending on the type of tax being calculated, such as income tax, sales tax, property tax, or corporate tax.

1.1.2 Tax Compliance

Tax adherence within the realm of small and medium enterprises (SMEs) refers to the extent to which these businesses comply with tax laws and regulations imposed by the government which encompasses various aspects such as accurate record-keeping, timely filing of tax returns, payment of taxes owed, and adherence to tax planning strategies that are within the legal framework (Inasius, 2019). According to Ongeru (2023) tax adherence within the realm of SMEs encompasses various aspects such as accurate record-keeping, timely filing of tax returns, payment of taxes owed, and adherence to tax planning strategies. Therefore, by adhering to tax laws and regulations, SMEs can contribute to the overall economic development, avoid legal issues, and maintain their credibility in the business community.

According Ayuba, Saad, & Ariffin (2016); Saipai & Kasipillai (2014), this is the taxpayers' adherence to relevant tax laws and regulations, encompassing the accurate reporting of expenses and income in line with prescribed tax laws. It signifies businesses' willingness to conform to the rules and regulations set by tax authorities (Kanyinga, 2016), as defined by the IRS (2019) as the capability and willingness of

taxpayers in adhering to tax regulations, report incomes accurately, and fulfill tax obligations punctually. In a broader context, tax compliance entails sincerity, sufficient tax knowledge, the ability to apply that knowledge effectively, timeliness, accuracy, and adequate record-keeping for completing tax returns and related documentation (Singh & Bhupalan, 2016). Khadijah (2014) outlines three components of tax compliance: to file, report, and payment compliance, implying that non-compliance occurs when any of these dimensions are not met. The use of electronic filing systems is one method of achieving the higher voluntary compliance that most tax changes aim to achieve.

The effectiveness of taxpayer assistance programs has also been found to be related to compliance, as has the perception of treatment by tax authorities, which has also been noted as playing a significant impact in compliance (Feld & Frey, 2016). The key finding appears to be that levels of satisfaction with public services are correlated with compliance with tax authorities. Additionally, it has been discovered that mutual respect between tax authorities and taxpayers, as well as the degree of political engagement and civil rights, both play a significant impact in compliance (Kirchler et al., 2008).

Many tax authorities have a serious problem with tax compliance. Even though some tax regulations aspects are not always exact, convincing taxpayers to adhere to them is hard (James & Alley, 2014). Taxpayers often seek to lessen the tax liabilities by engaging in tax evasion or avoidance, leading to incomplete tax returns and resulting in financial losses for the government. A tax system characterized by high societal costs due to overly complex regulations and enforcement mechanisms imposes an excessive burden on tax compliance. Such complexity often distorts the growth of SMEs as these

businesses may be inclined to adopt structures with lower or no tax obligations to alleviate the tax burden (Masato, 2019).

Additionally, a poorly implemented tax system wastes taxpayers' time and is inefficient and expensive to collect (Farzbod, 2010). The numerous regulatory bodies, numerous taxes, onerous importation process, and hefty port fees that consistently place a major strain on SMEs' operations make operating in this environment a challenge (Weichenrieder, 2017). SMEs are disproportionately affected by the costs whether scaled by assets or sales, according to the available empirical research. Compared to larger companies, compliance costs for SMEs are higher (Weichenrieder, 2017).

In Uasin-Gishu County, Kibiwott (2018) studied factors impacting tax compliance. From the sample of 230 SMEs, the study came to the conclusion that revenue authorities should fairly manage the tax system and that tax compliance decisions are a factor in the delivery of quality service. The many elements influencing Kenyan landlords' voluntary tax compliance were studied by Karanja (2016). According to the study, when people believe the government is abusing their taxes, their tax attitudes shift, which has a notable effect on their tax compliance. Further, landlords with higher rental revenue levels have greater compliance levels with the rental income tax. It was clear that a taxpayer's perception of the tax system and greater tax knowledge were important elements that greatly influence their degree of tax compliance.

Silvani (2018) came to the conclusion that two opposing sets of tax enforcement strategies—the persuasive and coercive strategies—should be utilized to encourage tax compliance (Silvani, 2018). While the appealing strategy encourages cooperative cooperation with taxpayers, the coercive approach promotes harsh actions. Understanding the cumulative effects of these opposing methods has not received much attention. Tax authorities in industrialized and developing countries frequently face the

challenge of encouraging tax compliance (Silvani 2018). Many innovative compliance approaches and techniques have been developed by tax authorities in addressing this difficulty, mostly relying on the taxpayer's type and size. Due to the posed hazards and provided profits for the tax system, methods employed to address large and small enterprise tax compliance vary (OECD, 2019).

1.1.3 Tax Compliance Procedures and Tax Compliance

Kenya's tax system is characterized by complexity, resulting in high compliance costs for taxpayers and increased expenses for conducting business. A more intricate tax system incurs higher administrative expenses, thereby raising the financial burden on taxpayers. Corporate income tax stands at 30 percent, with personal income tax ranging from 10 to 30 percent. Additionally, the value-added tax (VAT) rate is set at 16%, and withholding tax from 2% and vary based on income source and taxpayer status (Government of the Republic of Kenya, 2012). Thiga and Muturi (2015) examined factors influencing tax law compliance among Kenyan SMEs, identifying tax rates and compliance expenses as significant contributors to tax compliance challenges.

According to Bjork's (2003) theory, tax code complexity changes affects compliance, and lowering non-compliance leads to increased tax revenue. Because of their small size and weak organizational structure, SMEs bear an excessive amount of regulatory and tax responsibilities (Pope & Abdul-Jabbar, 2008). Due to their lack of resources and necessary expertise to comply with tax rules, SMEs face a significant problem with tax compliance. High compliance expenses also contribute to tax evasion and avoidance among SMEs. Because counties are less competitive as a result of unattractive taxation, this discourages investment. Tax evasion is a prevalent issue (Kasipillai & Abdul Jabbar, 2006). Fagbemi, Uadile, and Noah (2010) posit that evading tax is majorly

common in developing nations, which slows economic progress and causes socio-economic issues.

1.1.4 Small and Medium Enterprises in Thika Town

SMEs are types of small firms that don't generate a lot of revenue and just employ a few people. The enterprises are partnerships, companies, or sole proprietorships privately owned and operated. An average SME pays little tax amount compared large business, tax authorities often focus more on larger corporations (Livoi, 2017). In developing countries, tax compliance is currently a hot topic as governments at all levels look for ways of increasing the tax revenue collection effectiveness to fund their budgets.

In Thika Town there are thought to be 3616 SMEs in Kiambu County that are registered and employ between 5 and 50 people (Loo, McKerchar & Hansford, 2019). On the basis of this, KRA ought to develop a platform for SME tax compliance. To reduce poverty, and promote positive economic growth and development, and raise County residents' quality of life, the creation of SMEs should be supported and promoted (Munyoro, 2017). Kiambu county works to provide SMEs with the essential support so they can maximize their business earnings. The County Government requires all Kiambu County Government agencies to enhance, come up with, and maintain environmentally friendly conditions to the County's SME (Bett, 2020).

Small and medium-sized enterprises (SMEs) represent an unequal playing field and untapped income potential in many nations (Kanyi & Kalui, 2014); as such, they should be included in the tax net. However, despite the fact that laws are a necessary regulator for the establishment of essential social security regulations and security of economic agents the protection of the business environment, might also impede compliance and the expansion of the business by extra costs and administrative challenges.

To navigate the complexities of tax regulations, SMEs often seek the assistance of tax professionals, such as accountants or tax advisors. These professionals can provide guidance on tax planning strategies, help SMEs identify potential tax savings opportunities, and ensure compliance with tax laws. However, the cost of hiring external expertise can be a burden for many SMEs, especially those with limited financial resources (Musimenta, Nkundabanyanga & Nalukenge, 2017). Nartey (2023) observe that tax regulations for SMEs can vary significantly across different jurisdictions, adding another layer of complexity. SMEs operating in multiple locations or engaging in cross-border transactions may face additional challenges in understanding and complying with the tax laws of each jurisdiction.

1.2 Statement of the Problem

Tax compliance revolves around the accurate and timely tax payment details submission to the revenue authority. The complexity of tax laws directly affects the extent of individuals and businesses adhering to tax regulations (Nakiwala, 2015). The convoluted tax systems prevalent in many countries, both in terms of policy and administration, are significant factors driving operations into the informal economy. Governments have implemented various tax reforms to address tax evasion, yet it remains uncertain whether these measures have effectively encouraged the intended voluntary tax compliance among SMEs (Livoi, 2017).

In Kenya, SMEs face challenges in meeting tax compliance requirements due to their specific characteristics (Simiyu, 2013). The turnover tax introduced via the Finance Act of 2007 primarily targets SMEs, particularly those with an annual gross income of less than 5 million. Several obstacles hinder tax compliance among Kenyan SMEs, including the common practice of small business owners managing their own

accounting records (Muhangi, 2012). This self-management often results in less motivation to fulfill tax obligations.

Statistical information regarding tax compliance among small and medium-sized enterprises (SMEs) in Thika town reveals around 70% of SMEs in Thika town have successfully registered for tax purposes, approximately 60% of SMEs in Thika town consistently file their tax returns on time, around 50% of SMEs in Thika town regularly make their tax payments within the stipulated deadlines, only 20% of SMEs in Thika town have undergone tax audits in the past year and approximately 10% of SMEs in Thika town engage in tax evasion practices. This includes underreporting income, inflating expenses, or engaging in other fraudulent activities to reduce their tax liabilities. This highlights the presence of a small but significant non-compliant segment within the SME sector.

Although there are many researches on tax compliance challenges in Asian countries, very little research in the Kenyan MSMEs context has been done. In Saudi Arabia Suleiman (2021) researched on tax compliance challenges among SMEs and confirmed that providing taxpayers with adequate tax knowledge and education decreases the expenses associated with compliance and penalties while enhancing overall compliance rates. It is clear that these studies have concentrated on other countries, middle-class taxpayers, and large taxpayers, leaving a contextual research gap. As a result, the study aims to close this knowledge gap by exploring how tax compliance procedures in Thika town, Kiambu County affect small- and medium-sized business performance.

1.3 Objectives of the Study

1.3.1 General Objective

To investigate the effect of tax compliance procedures on tax compliance among Small and Medium Enterprises in Thika town, Kiambu County.

1.3.2 Specific Objectives

- i. To examine the effect of tax filing procedures on tax compliance among Small and Medium Enterprises in Thika town, Kiambu County.
- ii. To establish the effect of tax registration on tax compliance among Small and Medium Enterprises in Thika town, Kiambu County.
- iii. To explore the effect of tax remittance on tax compliance among Small and Medium Enterprises in Thika town, Kiambu County.
- iv. To assess the effect of tax rate determination on tax compliance among Small and Medium Enterprises in Thika town, Kiambu County.

1.4 Research Questions

- i. What is the effect of tax filing procedures on tax compliance among Small and Medium Enterprises in Thika town, Kiambu County?
- ii. What is the effect of tax registration on tax compliance among Small and Medium Enterprises in Thika town, Kiambu County?
- iii. What is the effect of tax remittance on tax compliance among Small and Medium Enterprises in Thika town, Kiambu County?
- iv. What is the effect of tax rate determination on tax compliance among Small and Medium Enterprises in Thika town, Kiambu County?

1.5 Significance of the Study

This study would benefit KRA in identifying and resolving the issues it consistently had in attaining revenue collection targets and the difficulties that SMEs encounter in tax compliance. The authority will be given better strategies for collecting tax, this has proven to be quite difficult and whose collections have been declining over time. Since SMEs tax issues have long been a difficult subject best left mainly in the hands of tax

experts and the government, scholars investigating SMEs taxation and other sectors will utilize the findings as a reference for further researches.

The research is expected to give policymakers practical knowledge on the most important aspects to take into account for better public service delivery and efficient and successful tax collection practices. Businesses will also find this study to be pertinent because it will make them more aware of their tax-paying responsibilities and help them to understand them.

1.6 Scope of the Study

The contextual gaps were investigating tax compliance procedures on SMEs' tax compliance in Thika town, Kiambu County. The geographical scope was SMES operating within Thika town. 3616 SMEs were targeted. The study utilized Small and Medium Enterprises tax returns for five years, that is, from 2018 to 2022.

1.7 Limitations of the Study

The scholar made thoughtful measures of guaranteeing research success. Even with the attempts, the study encountered limitations. Information was not readily available since reaching out to all SMEs tax returns was difficult, and when owners or managers of SMEs are reached, they were reluctant to provide the information requested. Presenting an authorization letter from the university and highlighting the study goals helped to mitigate this problem.

1.8 Organization of the Study

There are a total of five chapters included in this research project. The first chapter focuses on the introduction, while the second chapter delves into the literature review. The third chapter provides a comprehensive explanation of the research methodology. The first chapter covers the study background, objectives, significance, scope, and

limitations. To further clarify the research questions, the second chapter examines relevant theories and empirical literature. Chapter 3 provides a detailed description of the study design, data collection protocol, and data analysis process. Moving on to Chapter 4, it presents the research findings and encourages discussion. Finally, Chapter 5 concludes the project by summarizing the study's findings, conclusions, and recommendations for further research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter explores the existing literature on tax code complexity, and it is structured systematically beginning with theoretical, empirical review, and a conceptual framework.

2.2 Theoretical Review

The theoretical foundation of the study includes the social influence theory, .

2.2.1 Social Influence Theory

The social influence theory was developed by Robert Cialdini in the year 1984. Cialdini's theory outlines six principles of influence: reciprocity, commitment and consistency, social proof, authority, liking, and scarcity. Cialdini's theory of social influence has had a significant impact on our understanding of human behavior and has been widely studied and applied in various fields. The first principle, reciprocity, suggests that people feel obligated to repay others when they receive a favor or gift. This principle is often used in marketing strategies, such as offering free samples or trials, to create a sense of indebtedness and increase the likelihood of a purchase.

Pfeffer, Salancik and Leblebici (2018) argues that once people make a commitment, whether it's a small one like signing up for a newsletter or a larger one like making a public statement, they are more likely to follow through with related actions. This principle is often utilized in sales techniques, such as getting customers to make small initial commitments before asking for a larger commitment. Barry and Watson (2022) suggest that people tend to look to others for guidance on how to behave in uncertain situations. This principle is commonly seen in marketing campaigns that use testimonials or endorsements from satisfied customers to influence potential buyers.

Social influence theory highlights the role of social norms in shaping individuals' behavior. In the case of tax compliance, SMEs in Thika town may be influenced by the behavior of other businesses in their community. Social influence theory emphasizes the impact of social approval or disapproval on individuals' behavior. SMEs in Thika town may be more inclined to comply with tax regulations if they perceive that their compliance will be positively regarded by their peers, customers, or other stakeholders. Furthermore, social influence theory recognizes the influence of authority figures or opinion leaders within a social group. In the context of tax compliance, SMEs in Thika town may be influenced by the actions and opinions of influential business owners, community leaders, or government officials.

2.2.2 Classical Economic Theory

The classical economic theory was developed by Adam Smith in the years 1776 which emphasized the importance of free markets, division of labor, and self-interest in driving economic growth and prosperity. His ideas laid the foundation for modern economic thought and continue to influence economic policy and theory to this day. Adam Smith's classical economic theory revolutionized the way economists and policymakers understand and approach economic systems. Also argued that individuals pursuing their own self-interest in a free market would ultimately lead to the greatest overall benefit for society. He believed that the invisible hand of the market would guide resources and allocate them efficiently, resulting in economic growth and prosperity.

Letiche (2019) observe that when individuals specialize in specific tasks, they become more skilled and efficient, leading to increased productivity. This specialization, according to Smith, would not only benefit the individuals involved but also society as a whole. By dividing labor and allowing individuals to focus on what they do best,

overall output and wealth would increase. Morgan (2022) argued that government intervention and regulation in the economy would hinder economic growth and prosperity. Instead, advocated for minimal government interference, allowing market forces to determine prices, wages, and production levels. In addition, competition in the marketplace would lead to innovation, efficiency, and lower prices, benefiting consumers and driving economic growth.

One of the key principles of the classical economic theory is the belief that individuals and businesses act in their own self-interest and seek to maximize their profits. This principle has influenced SMEs in Thika town to comply with tax regulations in order to avoid penalties and legal consequences. By complying with tax laws, SMEs can maintain their reputation, build trust with customers and suppliers, and ensure the sustainability of their businesses in the long run. Additionally, the classical economic theory emphasizes the role of incentives in shaping individual behavior. In the context of tax compliance, this theory suggests that if the costs of tax evasion outweigh the benefits, SMEs are more likely to comply with tax regulations. Thika town, being part of Kiambu County, has implemented various incentives to encourage tax compliance among SMEs.

2.2.3 Prospect Theory of Taxation

It was initially proposed by psychologists Daniel Kahneman and Amos Tversky in 1979, earned Kahneman the Nobel Prize in Economics in 2002. Within the theory, taxpayer's utility function exhibits concavity for gains, implying that gains yield diminishing utility. Conversely, if advance tax payments fall short of actual tax liabilities, leading to additional taxes owed upon reporting extra income, it represents a loss. It is commonly employed to forecast individuals' risky tax decisions, such as those observed in the "withholding phenomenon," where individuals in a tax due position

tend to engage in more (less) tax noncompliance. Nonetheless, tax noncompliance is not entirely a risk matter; it also carries ethical implications.

The theory posits that, individuals experience distress (pleasure) in loss (gain) situations, prompting them to avoid (take) risks in the corresponding domain (Kahneman & Tversky, 1979, KT). While prospect theory is often presumed to elucidate risky and ethically-charged tax compliance choices, it primarily concerns decision-making under risk rather than ethical conduct. This distinction is crucial because unethical decisions evoke negative emotions, such as guilt or moral transgression (Bhattacharjee, Berman, & Reed, 2013).

The taxpayer's utility function exhibits convexity for losses, suggesting a greater propensity to take the risk to evade taxes. Hence, the mandatory advance tax payments level complements tax authorities' deterrence efforts. Cumulative prospect theory was applied by Bernasconi and Zanardi (2004) to tax evasion, taking into account a "general" reference point with 2 possible outcomes: 'income is not audited' and 'income is audited.' In their framework, tax evaders may find themselves in the gain or loss domain in either state. The theory supports the inclusion of variables related to tax filing, registration, and remittance in empirical studies

Prospect theory suggests that individuals tend to weigh potential losses more heavily than equivalent gains, leading to risk-averse behavior when faced with decisions involving uncertainty. This theory can be applied to SMEs in Thika town, as business owners may perceive the risks of non-compliance, such as penalties, audits, and reputational damage, as more significant than the benefits of tax evasion, such as increased profits in the short term.

2.2.4 The Allingham and Sandmo Theory

Nguyen et al. (2020) cites that, the Allingham and Sandmo argument posits that governments deter tax evasion by punitive measures and audits. When taxpayers perceive the cost of evading taxes as low and the likelihood of detection or audit as improbable, they are inclined to break the law and evade taxes. Similarly, if taxpayers view compliance costs as burdensome, they are more probable of engaging in tax avoidance. Complex and time-consuming tax systems often foster tax avoidance behaviors. Furthermore, high tax rates and severe penalties can also lead to tax evasion (Ng'eni, 2016).

In 1972, Allingham and Sandmo introduced income tax evasion concept, where rational and ethical taxpayers seek to maximize expected utility, which primarily hinges on income (Mondal, 2021). In cases of detection, evaders face fines proportional to the unpaid taxes. Increases in tax rates may paradoxically promote tax compliance due to competing income and substitution effects, leading to an ambiguous overall outcome. “The substitution effect incentivizes evasion as the marginal benefit of fraud rises with the tax rate. However, the income effect can deter tax evasion as higher tax rates diminish the utility of a taxpayer engaged in risk avoidance.” Consequently, the net effect remains uncertain.

The substitution effect diminishes when penalties are proportional to the evaded taxes, as typically prescribed by tax laws (Wagacha, 2019). In such cases, the absence of a substitution effect, coupled with the income effect, encourages taxpayers to engage in less evasion, resulting in improved compliance. This seminal finding has spurred numerous valuable extensions in the field of tax evasion research (Yilma, 2020).

the theory provides a framework to examine the factors that influence tax compliance decisions of SMEs. It suggests that individuals and businesses weigh the costs and

benefits of tax evasion against tax compliance. This theory helps in identifying the key determinants that influence tax compliance behavior, such as the perceived probability of detection, penalties for non-compliance, and the level of tax morale within the community. In Thika town, where SMEs play a significant role in the local economy, fostering a positive tax morale becomes crucial. Understanding the factors that influence tax morale, such as perceptions of fairness, trust in the government, and the provision of public goods and services, can help policymakers in Thika town to design strategies that promote tax compliance among SMEs.

2.3 Empirical Review

The section reviews literature from prior scholars regarding the tax compliance procedures on tax compliance of SMEs.

2.3.1 Tax Filing Procedures and Tax Compliance

Several empirical studies on tax filing procedures have been conducted, albeit in various contexts. The investigation conducted by Pippin and Tosun (2014) in US explored the influence of geographic, socio-economic, and demographic variables on electronic tax e-filing. Their findings revealed notable discrepancies in e-filing rates both among and in various states. They observed that e-filing was more prevalent in rural regions with smaller populations, states with a low proportion of females as residents, and parts that have high concentrations of Hispanic, African American, and Asian populations.. However, the study by Pipping and Tosum focused on demographic and socio-economic factors and not tax code complexity as is the focus of the current study thus present conceptual gaps. Further, the study was done in USA which has differing socio-economic environment to Kenya.

Kiring'a and Jagongo (2017) investigated how tax filing affected SME tax compliance in the Kibwezi Sub- County. 1800 SMEs were the aim of the study's survey research

design, but only 316 SMEs were selected as a sample size. In terms of technical proficiency and online tax filing perception in submitting tax returns, the study indicated that MSE's tax compliance level is impacted by e-tax filing. Taxpayers should be subjected to extensive and enhanced sensitization in order to inform them of online tax filing, its functionality, and its benefits so that taxpayers may comprehend and value it. However, this investigation was limited in scope; it was looking at tax filing and not broader tax code complexity.

Atawodi and Ojeka (2012) conducted a study in North-Central Nigeria aimed at analyzing the attributes affecting tax compliance in SMEs. The majority of SMEs cited high tax rates and complicated filing procedures as reasons for their non-compliance. They suggested that SMEs should be subjected to lower tax burdens to allocate more funds towards activities fostering business expansion, thereby enhancing competitiveness. However, the study was confined to Nigeria and focused primarily on high tax rates, leaving gaps in both contextual and conceptual understanding.

Ann (2015) conducted research investigating the awareness level of SME owners in Batangas regarding the Internal Revenue Bureau E-Filing and tax Payment System. The findings indicated a generally high awareness among SME owners regarding electronic tax filing and payment systems. Participants acknowledged the perceived benefits of utilizing computerized systems, yet their intention to adopt the system was influenced by perceived risks and challenges. Although the study shed light on the complexity of tax codes hindering compliance in MSMEs, it was conducted in a different geographic context with distinct tax policies.

Gidisu (2012) explored the operational procedures of the Ghana Revenue Authority's automation system to assess its effectiveness in collecting revenue. Results posit a positive correlation between the utilization of automation systems and the efficiency of

revenue collection, along with associated administrative costs. Furthermore, automation significantly impacted tax clearance timelines. Conversely, Jallow (2016) explored the potential of computerization in customs and tax administration within Gambia context. Results revealed unresolved challenges in payment, registration, and audit modules, indicating an absence of seamless integration. Despite this, notable positive connection between customs/ tax administration and automation were identified. However, Jallow's study focused solely on computerization in tax administration and did not address issues related to tax compliance and complexity.

2.3.2 Tax Registration and Tax Compliance

In 2016, Muturi and Kiarie conducted an investigation into how tax compliance among small-scale taxpayers in Meru County is impacted by online tax system. Their focus was particularly on the influence of online tax registration on compliance rates. Deploying a descriptive research methodology, structured questionnaires gathered data from a sample of 60 taxpayers within the Meru County tax district. The collected data underwent quantitative analysis through SPSS version 20, encompassing descriptive statistics, regression, and correlation analyses. The findings reported a notable connection between the online tax system and the tax compliance level among small-scale taxpayers in Meru County. This reserach present conceptual gaps as it narrowed down to online tax system and not tax code complexity.

In his study on how compliance with turnover tax in SMES in industrial areas is impacted by tax reforms, Kanyinga (2016) came to the conclusion that the majority of SMEs said they were using e-tax registration and were filling returns online. To increase TOT compliance among Kenya's small and medium-sized businesses, KRA has integrated information technology into its operations. SMEs concurred that computerization, EFT, ITR, ITMS and SIMBA are the primary forces promoting

compliance and, thus, increasing revenue collection. SMEs claimed that KRA had instructed them on how to pay turnover tax. It is possible to infer from the justifications given that teaching people the calculation tax payments and file returns as they register for turnover tax results in higher compliance. The majority thus concurred that TOT training significantly influences compliance. However, the study adopted differing theoretical constructs to measure tax code complexity as to those adopted in the current study.

A research on how Kenya's western region's revenue collection by KRA is affected by electronic tax register was done by Sagas, Nelimalyani, and Kimaiyo (2015). According to their investigation findings, 75% of the respondents believed that ETR devices have reduced instances of tax evasion. Due to their effectiveness, 86% of the respondents believed that ETRs had contributed to an increase in revenue collection. Ming, Nuruld and Aham (2010) looked at the ICT knowledge required of a recent accounting graduate who is joining a tax firm, using e-tax applications in tax practice, how senior tax practitioners rated the ICT and e-tax applications skills of recent graduates, and whether tax practitioners had any thoughts on incorporating ICT knowledge and tax software into tax courses. The study used a questionnaire-based survey research design that was carried out online. According to the study, student knowledge of electronic tax systems and ICT had a favorable effect on compliance. However, the study context was focused on tax practice and not tax code complexity and compliance in SMEs context.

2.3.3 Tax Remittance and Tax Compliance

Bernard, Memba, and Oluoch (2018) explored how costs impact taxpayers' compliance with taxes, focusing specifically on investors in Export Processing Zones. They employed a survey design involving 152 firms, utilizing a census approach. The research revealed that various compliance costs, such as auditing expenses, personnel

and expert hiring costs, time spent on tax assessment and return filing, and maintaining staff for compliance purposes, significantly affected taxpayers' ability to comply with taxes. However, the study by Bernard et al. concentrated solely on costs and their influence on tax compliance, neglecting to connect tax code complexity with tax compliance, unlike the present study.

In Kisumu County, Wambua (2019) investigated the factors influencing the direct taxes remittance among SMEs. Employing a cross-sectional descriptive research design, stratified random sampling technique was deployed to select 222 respondents based on Yamane's (1975) formula. Data collection was conducted through questionnaires, and analysis involved regression analysis standard deviation, and means, with results displayed through graphs and pie charts. The research disclosed that liquidity, various cost attributes, and remittance expenses significantly affected and were correlated with direct tax remittance. The study concluded that liquidity, cost factors, and remittance expenses are pivotal in influencing the remittance of direct taxes. However, the study scope was restricted to direct tax remittance and did not encompass broader considerations of tax code complexity.

2.3.4 Tax Rate Determination and Tax Compliance

Chindengwike and Kira (2022) conducted a study examining how tax rates affect taxpayers' voluntary compliance in Tanzania. They employed a cross-sectional survey research design methodology, utilizing both document review and surveys to gather data. The sampling techniques employed included systematic, unsystematic random sampling, and purposive sampling. The study involved 99 respondents, specifically small and medium-sized enterprise (SME) taxpayers. The findings demonstrated a negative connection between tax rates and taxpayers' voluntary compliance. Additionally, the research highlighted that favorable tax rates enhance voluntary

compliance among taxpayers, underscoring the notable impact of tax rates on voluntary compliance. However, the study presents conceptual gaps as it focused on tax rate and not tax rate determination in the context of MSMEs. However, the study by Chindengwike and Kira was limited to tax rates and not tax code complexity.

In his study on how compliance with turnover tax in SMEs in industrial areas is impacted by tax reforms, Kanyinga (2016) came to the conclusion that the majority of SMEs said they use e-tax to register and filing returns online. To increase TOT compliance among Kenya's small and medium-sized businesses, KRA has integrated information technology into its operations. SMEs concurred that computerization, EFT, ITR, ITMS and SIMBA are the primary forces promoting compliance and, thus, increasing revenue collection. SMEs claimed that KRA had instructed them on how to pay turnover tax. It is possible to infer from the justifications given that teaching people the calculation tax payments and file returns as they register for turnover tax results in higher compliance. The majority thus concurred that TOT training significantly influences compliance. However, the study adopted differing theoretical constructs to measure tax code complexity as to those adopted in this study.

2.4 Summary of the Literature Review and Research Gaps

This research has reviewed the body of knowledge regarding tax compliance procedures and tax compliance.

Table 2.1: Summary of Literature Reviewed and Research Gaps

Author	Focus	Findings	Knowledge Gap	Study Focus
Atawodi and Ojeka (2012)	Attributes affecting SMEs' tax compliance	Majority of SMEs cited high tax rates and complicated filing procedures as reasons for	The study presents conceptual gaps as it broadly looked at myriad of factors and did not narrow down to tax code complexity	Study looked at tax procedures complexity and compliance by SMEs

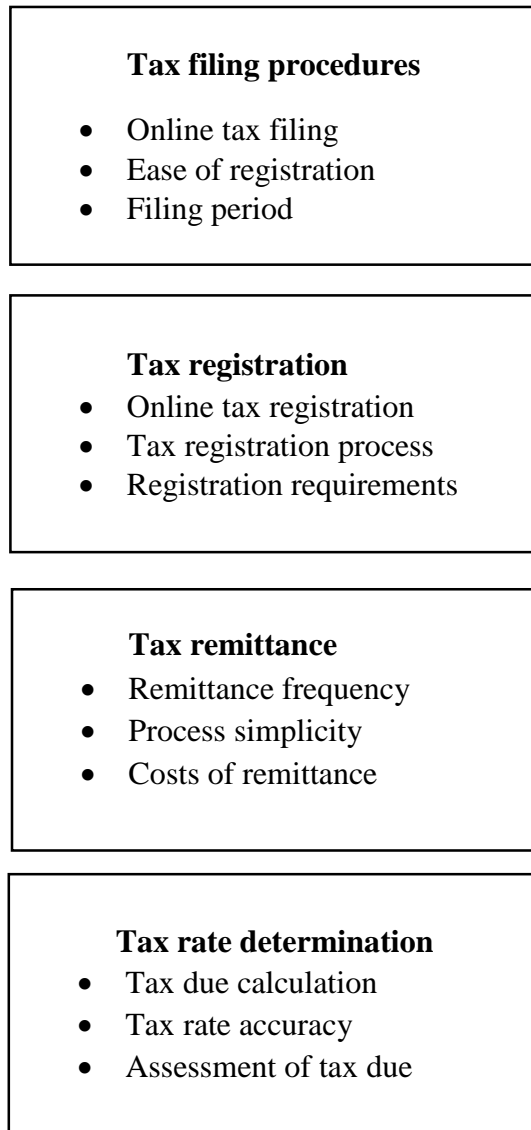
		their non-compliance		
Kiring'a & Jagongo (2017)	How tax filing affected SME tax compliance	online tax filing affects MSE's tax compliance level	The study was narrow in scope since it looked at tax filing and not broader tax complexity.	The study incorporates other procedures
Muturi and Kiarie (2016)	How e-tax system affects tax compliance among small-scale taxpayers	Online tax system does not affect the tax compliance level	The study presents methodological gaps as it used systematic literature review which could lead to meta-analysis misuse	The study adopted cross-sectional design
Sagas, Nelimalyani, & Kimaiyo (2015)	Electronic tax register on Kenya's western region's revenue collection	ETRs had contributed to an increase in revenue collection.	However, there is contextual gaps as it looked on electronic tax register	The study looks at tax procedures and compliance
Wambua (2019)	Attributes that affect direct taxes' remittance among SMEs	Liquidity, various cost factors, and remittance expenses significantly affected and were correlated with direct tax remittance	The study was narrow as it looked at tax remittance only	The study is broad as it captures other factors as registration and filing
Chindengwike & Kira (2022)	Tax rate on voluntary compliance in Tanzania	Tax rate negatively affect taxpayers' voluntary compliance.	The study presents contextual gaps as it focused on tax rate and not determination of tax rates	The study filled the gaps by linking tax procedures and compliance in SMEs
Bernard, Memba & Oluoch (2018)	How costs influence the taxpayers' capability in complying with taxes.	Tax payers' ability to comply with taxes was notably influenced by compliance cost	However, the study by Bernard et al focused on costs and its implication on tax compliance and failed to link tax	The study filled the gaps by linking tax procedures and compliance in SMEs

			procedures complexity to tax compliance	
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Source; Researcher (2023)

2.5 Conceptual Framework

Independent Variables



Dependent Variable

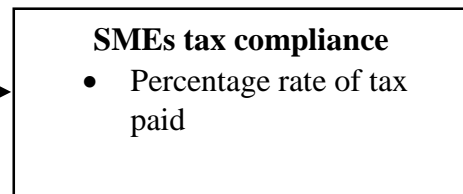


Figure 2.1: Conceptual framework

Source; Researcher (2023)

Figure 2.1 illustrates variables representation in diagrammatic. Each study variable has been assigned operationalized sub-variables used to specifically measure the variables and help in developing the statements of the questionnaire to solicit responses from the study participants.

Tax compliance procedures forms the independent variable as comprised of tax filing procedures, tax registration, tax remittance and tax rate determination. The target variable is tax compliance as operationalized by payment of taxes, tax reporting and tax filling.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The methodology for the investigation is described in this chapter. It addresses the research design used; research processes, the targeted group and sample size, the types of data gathering techniques to be employed, analysis techniques.

3.2 Research Design

A research design is a generic strategy to undertake a research on specific testable research questions (Sekaran & Bougie, 2016). Mohajan (2018) defines it as “a master plan that outlines the techniques and steps to be taken in order to gather and analyze the necessary data.” Cross-sectional survey methodology was used because it is the most effective method for determining the prevalence of a phenomena, issue, attitude, problem or situation through utilizing a cross-section of the population. One fundamental feature of this research method is using questionnaire in collecting all measures for a sample at one time (Gujarati, 2017). The benefits of utilizing a cross-sectional research methodology include its efficiency, cost-effectiveness, ability to provide a snapshot of a population, and its potential to uncover important relationships and patterns within data.

3.3 Target Population

Halperin and Heath (2020) describe this as all the objects regarding the information beingsought. Registered by KRA in Thika town as of June 2023 and operating for more than three years in Thika town made up the target population, focusing on the firm managers and/or owners. The 3616 SMEs that were officially registered by KRA in Thika town as of June 30, 2023, representing a variety of industries, made up the targeted group, as stated in Table 3.1 by the KRA.

Table 3.1: Target Population

Sector	Population
Retailers	1050
General Merchants	987
Transport Business	629
Agri Processors	499
Hotels & Restaurants	451
TOTAL	3616

Source: KRA (2022).

3.4 Sample Size and Sampling Technique

A sample, based on Kumar (2019), is a group of objects selected from the universe to symbolize it. According to McKim (2017), a sample in the context of survey study is a selection of constituents made from a broader group. By focusing on data from a small subset, sampling techniques give approaches of helping limit the data quantity that must be collected (Creswell, 2014).

Using the estimated proportion ($p = 0.5$) and error margin ($e = 0.05$), the sample size for the study targeting 3,616 participants will be as follows;

$$n = (Z^2 * p * (1-p)) / (e^2)$$

$$n = (1.96^2 * 0.5 * (1-0.5)) / (0.05^2)$$

$$n = (3.8416 * 0.25) / 0.0025$$

$$n = 0.9604 / 0.0025$$

$$n \approx 385$$

The stratified random sampling approach divided SMEs in to various clusters based on their nature. Then simple random sampling approach allocated the computed sample

size across the different SMEs clusters based on their population. Stratified sampling is utilized when the sampled group does not consist of a homogeneous group, according to Kochetov (2020). The technique entails segmenting the group into a number of pertinent strata, suggesting the sample is probably representative (Yin, 2017).

Table 3.2: Sample Size Determination

Sector	Population	Sample Size
Retailers	1050	112
General Merchants	987	105
Transport Business	629	67
Agri Processors	499	53
Hotels & Restaurants	451	48
TOTAL	3616	385

3.5 Data Collection Instrument

Structured questionnaires captured primary data (Jebb & Tay, 2017). To gather data on important variables from the study's target respondents, a questionnaire was created. The survey included structured questions on a Likert scale with five possible responses. According to Yin (2017), Likert scales are beneficial because they show how strongly a respondent feels about the topic of the questions, are simple to analyze, make it simple to gather data, are more comprehensive, and are also rapid. These respondents were chosen since they were capable of offering useful data for the study. SMEs performance reports, books, and articles provided secondary data. Journals and books from relevant research studies can be used to supplement primary data. According to Darlington and Hayes (2016), surveys have the advantage of making it simple to contact a large number of respondents. They also offer analytically simple, quantitative responses.

3.6 Pilot Study

Piloting helps the study determine whether the tools used for data gathering have any errors, restrictions, or other problems. Prior to the study, it enables the researcher to make any necessary changes. Odoh and Chinedum (2018) claim that to pre-test the

questions, a pilot study entails giving the questionnaires to a small sample of the targeted group. Hence, a pilot was conducted with 38 SMEs randomly picked in Kikuyu town to evaluate the data tool validity and reliability. This mostly hinges on the conventional wisdom that a pilot test should make up 1–10% of the sample (Kumar, 2019). The 38 SMEs were not included in the final analysis.

3.6.1 Research Instruments Validity

Validity refers to the tools or scales used to assess how strong the conclusions of a certain study hypothesis are. Validity is mainly concerned with whether or not the measure was completed using the correct idea (Sekaran & Bougie, 2016). Validity, according to Jebb and Tay (2017), is the significance and precision of inferences from study results. In other words, validity is the extent of outcomes accurately reflecting the phenomenon under investigation. The KMO-Bartlett test was employed. Although it is possible to declare that its value ranges from 0 to 1, a satisfactory value of more than 0.6 is necessary for the scale to be dependable.

3.6.2 Research Instruments Reliability

A scale or measurement tool that is reliable produces consistent results. It means a test will be regarded as reliable if it is administered using any instrument for a specific subject and the results are consistent across all attempts. The stability and consistency of the test result are what reliability is mainly concerned with (Quan-Haase & Sloan, 2017). It was achieved through recognizing the connection between scores from different scale administrations. The scale proves reliable when there is a robust correlation, as it yields consistent outcomes. Cronbach's alpha evaluated the questionnaire's internal reliability. The range of values is 0 to 1.0, with 1.0 denoting perfect reliability and 0.7 being considered lower acceptability level (Jebb & Tay, 2017).

3.7 Data Analysis and Presentation

With regard to the study's objectives, the data will be gathered, handled, and evaluated through descriptive and inferential statistics. The SPSS version 28 was the analytical tool utilized for this investigation. Descriptive statistics like mode, median, mean, and SD was utilized to analyze data. F-tests (ANOVA) assessed research hypotheses to gauge the statistical significance of the relationships between the variables and derive research-related conclusions. Additionally, to ascertain the connection between tax policy revisions and tax compliance among SMEs in Kiambu County, multiple linear regression and correlation studies will be utilized.

The regression model adopted is as follows:

$$Y_{ij} = \beta_0 + \beta_1 X_{1ij} + \beta_2 X_{2ij} + \beta_3 X_{3ij} + \beta_4 X_{4ij} + e_{ij}$$

Where:

Y = SMEs tax compliance

β_0 = Constant

X1 = Tax filing procedures

X2 = Tax registration

X3 = Tax remittance

X4 = Tax rate determination

e_i = Error term

Table 3.3: Operationalization of Study Variables

Variables	No items measured	Scale used
Tax filing procedures	<ul style="list-style-type: none">• Online tax filing• Ease of registration• Filing period	5 – Point Likert types
Tax registration	<ul style="list-style-type: none">• Online tax registration• Tax registration process• Registration requirements	5 – Point Likert types
Tax remittance	<ul style="list-style-type: none">• Remittance frequency• Process simplicity• Costs of remittance	5 – Point Likert types
Tax rate determination	<ul style="list-style-type: none">• Tax due calculation• Tax rate accuracy• Assessment of tax due	5 – Point Likert types
Tax compliance	<ul style="list-style-type: none">• Payment of taxes• Filing of tax returns• Tax reporting• Returns timeliness	5 – Point Likert types

Source; Researcher (2023)

3.8 Ethical Consideration

The Graduate School at Kenyatta University was contacted for ethical approval, and the NACOSTI was contacted for research permission. Before taking part in the study, top management of the SMEs were asked for their informed consent to ensure that the research is done in a suitable setting free from internal interferences and influences. All study participants received comprehensive information about the study's goals so they may decide for themselves whether to join or not. The study's participants' data were handled with the strictest secrecy.

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This research conducted to validate the conceptual model and research questions is presented in this chapter. The descriptive evaluation of the research variables and broad demographic information for the respondents are both included in this chapter. This chapter also includes evaluations of the implications of the findings and the outcomes of the statistical tests used in the study.

4.2 Response Rate

During this research, questionnaires were distributed to 385 respondents. A total of 297 were returned, which represents a good response rate of 77.1% (Creswell, 2015).

4.3 Pilot Results

A pilot test was done to ascertain the data tools' internal consistency and reliability. The results are discussed as below

4.3.1 Reliability Results

An analysis of reliability was conducted to assess the constructs of the survey. The assessment utilized Cronbach's alpha as a measure. According to Sekaran and Bougie (2013), a coefficient of 0.7 or higher is deemed fit for fundamental study reasons. Bagozzi (1994) elaborates on reliability, suggesting it can be viewed in terms of accuracy and inaccuracy. Cronbach's alpha, a widely used reliability coefficient, gauges internal consistency by examining the relationship among all items on a test and their correlation with the total test – indicating the internal coherence of the data. Reliability is quantified as a coefficient ranging from 0 to 1.00, with higher values indicating greater reliability of the test

Table 4.1: Reliability Outcomes

Variables	N of Items	Cronbach's Alpha	Comments
Tax filing procedures	5	0.731	Accepted
Tax registration	5	0.780	Accepted
Tax remittance	5	0.814	Accepted
Tax rate determination	5	0.863	Accepted
Tax compliance	5	0.747	Accepted

The finding presented in Table 4.1 revealed that tax filing procedures as measured by 4 items had a 0.731 Cronbach's Alpha. This means that the scale used was reliable and that all the items were correlated and measured the same thing. The results further showed that tax registration which was measured using 4 items had a 0.780 Cronbach's Alpha which was higher than 0.7 threshold adopted for this study. Similarly, other variables, tax remittance, tax rate determination and tax compliance had Cronbach's Alphas of 0.814, 0.863 and 0.747 respectively which were above the threshold of 0.7 adopted for this study. Implying that the scale was reliable and it was adequate for collecting data.

4.3.2 Validity Results

Validity was looked into through face, content, and construct validity (Bryman & Bell, 2019). A plethora of literature avers that validity is the a test's ability in measuring what it intends to measure (Bryman & Bell, 2019).

Face validity was validated through in-depth discussions with people who had experience and expertise in the field of tax and finance in judging if the draft survey questionnaire was covering and measuring the intended concepts. All feedback provided was taken into account, leading to several modifications. Their input

facilitated the enhancement of the items, focusing on employing more objective measurement methods and refining the wording for clarity.

Content validity was established by utilizing modified instruments that were deemed suitable in prior research endeavors. According to certain academic sources, this entails employing adapted instruments that have been deemed appropriate by past researches (Hair et al., 2020). Scholars assert that content validity refers to the extent of an instrument thoroughly evaluating or measuring the intended construct (Creswell, 2020). Before the pilot study, draft questionnaire underwent evaluation by two university experts, providing feedback on every item's relevance in the data tool. Their input also addressed the wording of specific phrases, layout, and questionnaire structure. The opinions provided by the necessary experts culminated to modifications in the items that constituted the constructs of this study. The results suggested that the draft questionnaire's content validity was acceptable.

Construct validity was also established through convergent and discriminant validity based on factor analysis. Extant literature posits that EFA analyzes the scale items proving the measurement instruments' discriminant validity done within an investigation (Sekaran & Bougie, 2019). Scholars further assert that EFA relies on KMO measure of sampling adequacy, along with a significance test at the 95% confidence level. The data tool is considered suitable when the KMO value falls within the range of 0.5 to 1.0 (Hair et al., 2020)

Table 4.2: Validity Results

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.			0.836
Bartlett's Test of Sphericity	Approx. Square	Chi-	1265.427
	Df		37
	Sig.		0.000

KMO and Bartlett's test results are discussed above. This evaluates if the given responses are or are not adequate with the sample.

The KMO value achieved stands at 0.836, signifying its adequacy. This suggests that the cumulative partial correlations are relatively modest compared to the overall correlations. With 83.6% of analysis variables contributing to this sum, there is a lack of dispersion in the correlation pattern, rendering factor analysis suitable for this context. Consequently, distinct and reliable factors are expected to emerge from analyzing the data.

Furthermore, Table 4.2 includes Bartlett's Sphericity Test. The Approximate Chi-Square value recorded is 1265.427, with a p-value of 0.000, significantly lower than 0.001. Hence, the correlation matrix is not an identity matrix, highlighting substantial relationships among the constructs. Consequently, factor analysis is deemed appropriate for this dataset

4.4 Demographic Characteristics of Respondents

Participants' general data was sought and findings discussed

4.4.1 Duration of SMEs' Operation

Participants indicated the duration the small business had been in operation. Table 4.3. shows the findings

Table 4.3: Participants' Experience

	F	%
1-5 years	51	17.2
5-10 years	157	52.9
10-15 years	64	21.5
15 years and Above	25	8.4
Total	297	100.0

Majority of small businesses had operated for between 5 and 10 years as indicated by 52.9%. Other 21.5% of small businesses for between 10 and 15 years, 17.2% for less than 5 years and other 8.4% of the small businesses for more than 15 years. As SMEs establish themselves and grow, their understanding and adherence to tax regulations tend to improve. In addition, as SMEs gain experience, familiarity, and access to professional advice, they are better equipped to meet their tax obligations and navigate the complexities of tax regulations.

4.4.2 KRA Registration Status of Business

Next, participants indicated the KRA registration status of their business. Table 4.4. shows the outcomes

Table 4.4: KRA Registration Status

	Frequency	Percent
Registered	253	85.2
Not registered	44	14.8
Total	297	100.0

Majority of the sampled small enterprises (85.2%) had been registered by KRA for tax purposes and only 14.8% were unregistered during the time of survey. The results imply that many small businesses are aware of tax compliance. The KRA registration status on tax compliance remains valid for one year, but ongoing compliance is necessary to maintain this status and avoid any penalties or consequences.

4.5 Descriptive Results

Standard deviation and mean of the constructs was checked through descriptive analysis.

4.5.1 Tax Filing Procedures

Participants rated their agreement on various tax filing procedure aspects using a 5 point Likert scale. Table 4.5. has the outcomes

Table 4.5: Tax Filing Procedures

	M	SD
Online tax filing procedures provided by KRA are complex to understand	4.17	.231
There is no ease of tax filing as the systems are not straight forward	4.23	.536
The filing of tax period provided by KRA is not flexible	4.02	.444
The filing of tax requirements from KRA makes it difficult for my business to file tax returns	4.26	.703
The tax filing procedures requires computer knowledge which am lacking	4.01	.849

The results show participants agreed that online tax filing procedures provided by KRA are complex to understand and that in there is no ease of tax filing as the systems are not straight forward as indicated by 4.17 and 4.23 respective mean. Participants agreed that the filing of tax period provided by KRA is not flexible (mean=4.02) and that the filing of tax requirements from KRA makes it difficult for my business to file tax returns (mean=4.26). Respondents agreed that the tax filing procedures requires computer knowledge which they lack (mean=4.01). The findings agree with Kiring'a and Jagongo (2017) who investigated how tax filing affected SME tax compliance in the Kibwezi Sub-county. In terms of technical proficiency and online tax filing perception in submitting tax returns, the study indicated that MSE's tax compliance level is impacted by e-tax filing. The finding also agree with Atawodi and Ojeka (2012) who conducted a study in North-Central Nigeria aimed at analyzing the attributes affecting tax

compliance in SMEs. They suggested that SMEs should be subjected to lower tax burdens to allocate more funds towards activities fostering business expansion, thereby enhancing competitiveness. However, the study was confined to Nigeria and focused primarily on high tax rates, leaving gaps in both contextual and conceptual understanding.

4.5.2 Tax Registration

Participants rated their agreement on various tax registration aspects using a 5 point Likert scale. Table 4.6. has the outcomes

Table 4.6: Tax Registration

	M	SD
Tax registration process through online portal for MSMEs has been simplified	4.41	.817
The requirements by KRA for tax registration makes it hard for MSMEs to register for tax	2.15	.634
Tax registration by small businesses is viewed as punitive and it is avoided at all costs	4.26	.509
The availability of iTax registration system making tax registration easy	3.01	.822
Tax registration by small businesses has many compulsory information fields which most businesses do not have	4.10	.277

Participants agreed that tax registration process through online portal for MSMEs has been simplified and that the requirements by KRA for tax registration makes it hard for MSMEs to register for tax with a respective 4.41 and 4.26 mean. However, respondents disagreed that tax registration by small businesses is viewed as punitive and it is

avoided at all costs (M=2.15). Participants were indifferent regarding the availability of iTax registration system making tax registration easy (mean=3.01). Respondents agreed to the assertion that tax registration by small businesses has many compulsory information fields which most businesses do not have (mean=4.10). The finding concur with Kanyinga (2016) study which observe that the majority of SMEs said they were using e-tax registration and were filling returns online. The study also agrees with a research on how Kenya's western region's revenue collection by KRA is affected by electronic tax register was done by Sagas, Nelimalyani, and Kimaiyo (2015). According to their investigation findings, 75% of the respondents believed that ETR devices have reduced instances of tax evasion. Due to their effectiveness, 86% of the respondents believed that ETRs had contributed to an increase in revenue collection.

4.5.3 Tax Remittance

Participants rated their agreement on various tax remittance aspects using a 5 point Likert scale. Table 4.7. has the results

Table 4.7: Tax Remittance

	M	SD
The tax remittance frequency provided by KRA is difficult to comply with in my business	4.13	.882
The self-assessment tax remittances have simplified tax remittance process	4.20	.887
Tax remittance by small businesses is costly as most owners seek paid services	4.82	.883
The tax category requirement during remittance process is difficult in understanding the case of small businesses	4.89	.881
The remittance of taxes by small businesses requires enforcement	3.18	1.012

Participants agreed that the tax remittance frequency provided by KRA is difficult to comply with in my business and that the self-assessment tax remittances have simplified tax remittance process with a respective 4.13 and 4.20 mean. Respondents also agreed that tax remittance by small businesses is costly as most owners seek paid services (mean=4.82) and that the tax category requirement during remittance process is difficult in understanding in the case of small businesses (mean=4.89). Participants were indifferent regarding remittance of taxes by small businesses requiring enforcement (mean=3.18). The finding is consistent with Bernard, Memba, and Oluoch (2018) who explored how costs impact taxpayers' compliance with taxes, focusing specifically on investors in Export Processing Zones. The research revealed that various

compliance costs, such as auditing expenses, personnel and expert hiring costs, time spent on tax assessment and return filing, and maintaining staff for compliance purposes, significantly affected taxpayers' ability to comply with taxes. The study is also consistent with Wambua (2019) who investigated the factors influencing the direct taxes remittance among SMEs. The research disclosed that liquidity, various cost attributes, and remittance expenses significantly affected and were correlated with direct tax remittance.

4.5.4 Tax Rate Determination

Participants rated their agreement on various tax rate determination aspects using a 5 point Likert scale. Table 4.8. shows the findings

Table 4.8: Tax Rate Determination

	M	SD
The small businesses experience challenges in determining tax rates due	3.66	.753
The tax code provided by KRA is easy to understand and calculate	4.66	.748
The small business owners/managers do not have access to tax rate code	4.52	.741
The KRA tax rate code is ambiguous and not easy to understand which tax affects particular small business	3.64	.756
The KRA provides tax calculator to small scale traders which makes it easy to understand the tax due	2.37	.549

Results show that participants agreed that the small businesses experience challenges in determining tax rates due and that the tax code provided by KRA is easy to understand and calculate as indicated by the respective 3.66 and 4.66 rmean. Respondents also agreed that the small business owners/managers do not have access to tax rate code (mean=4.52) and that the KRA tax rate code is ambiguous and not easy to understand which tax affects particular small business (mean=3.64). Respondents disagreed that KRA provides tax calculator to small scale traders which makes it easy to understand the tax due (mean=2.37). The finding is in line with Chindengwike and Kira (2022) who conducted a study examining how tax rates affect taxpayers' voluntary compliance in Tanzania. the research highlighted that favorable tax rates enhance voluntary compliance among taxpayers, underscoring the notable impact of tax rates on voluntary compliance. The finding is also in line with a study on how compliance with turnover tax in SMEs in industrial areas is impacted by tax reforms, Kanyinga (2016) came to the conclusion that the majority of SMEs said they use e-tax to register and filing returns online. To increase TOT compliance among Kenya's small and medium-sized businesses, KRA has integrated information technology into its operations.

4.6 Correlation Analysis

The correlation between tax and tax compliance was ascertained through using the Pearson's product moment correlation analysis. The findings are tabulated as below

Table 4.9: Correlation Coefficient Results

			TP	TReg	TR	TRD	TC
Tax filing procedures	Pearson Correlation		1				
	Sig. (2-tailed)						
	N		297				
Tax registration	Pearson Correlation		.296**	1			
	Sig. (2-tailed)		.000				
	N		297	297			
Tax remittance	Pearson Correlation		.504**	.776**	1		
	Sig. (2-tailed)		.000	.000			
	N		297	297			
Tax rate determination	Pearson Correlation		.361**	.487**	1		1
	Sig. (2-tailed)		.000	.000			
	N		297	297	297	297	
Tax compliance	Pearson Correlation		.597**	.466**	.239	.519	1
	Sig. (2-tailed)		.000	.000	.000	.017	

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

Findings indicated that tax filing procedures positively and notably correlated with tax compliance demonstrated by r of 597. Tax registration and tax compliance moderately and favorably correlated as illustrated by a 0.466 correlation coefficient and a 0.000 p-value. The findings agree with Kiring'a and Jagongo (2017) who investigated how tax filing affected SME tax compliance in the Kibwezi Sub-county. In terms of technical proficiency and online tax filing perception in submitting tax returns, the study indicated that MSE's tax compliance level is impacted by e-tax filing.

The bivariate correlation between tax remittance and tax compliance was positive and notable, (r of 0.239 and a p-value of 0.000). Tax rate determination and tax compliance

positively and significantly correlated ($r = .519$). The study is consistent with Wambua (2019) who investigated the factors influencing the direct taxes remittance among SMEs. The research disclosed that liquidity, various cost attributes, and remittance expenses significantly affected and were correlated with direct tax remittance.

4.7 Diagnostic Test Results

The data collected using the questionnaire was subjected to four diagnostic tests, that is, normality, and multicollinearity. The fact that the collected data were categorical (precisely, ordinal) informed the aforesaid diagnostic tests.

4.7.1 Normality Test

The assumption testing was done through Shapiro-wilk test. Findings are in Table 4.10.

Table 4.10: Test of Normality

	Shapiro-Wilk		
	Statistic	Df	Sig.
Performance	.853	296	.119

The p-value was .119 which implies that residuals assumed a normal distribution.

4.7.2 Test of Multi-collinearity

Multi-collinearity test was done with the view of establishing the interrelationships between predictor variables and how such could potentially compromise multiple regression analysis results. Multi-collinearity occurs when there are several variables (more than 1 variable) in a multiple regression analysis, and which are significantly correlated to each other. Consequently, some of the significant variables under study are made to be statistically not significant (Young, 2017). The variance inflation factors (VIF) as well as tolerance level (T) are the parameters testing multi-collinearity. VIF is employed to measure the extent of the estimated regression coefficient's variance inflating if and/or when the predictor constructs are correlated. Notably, VIF is reciprocal to T (Shrestha, 2020). Variance inflation factor less than 5

are acceptable since they demonstrate only moderate correlation between independent variables (Gupta & Gupta, 2022). The results are in Table 4.11.

Table 4.11: Test of Multicollinearity

Study Constructs	Collinearity Statistics	
	Tolerance	VIF
Tax filing procedures	.945	1.039
Tax registration	.965	1.045
Tax remittance	.911	1.077
Tax rate determination	.889	1.113

a. Dependent Variable: Performance

All the four independent variables, that is, tax filing procedures (VIF = 1.039), tax registration (VIF = 1.045), tax remittance (VIF = 1.077), and tax rate determination (VIF = 1.113). There were no serious multi-collinearity problems detected in the study.

4.8 Multiple Regression Analysis

In ascertaining the variables' statistical relationship, regression model was adopted. Data obtained was used to regress tax compliance on tax filing procedures, tax registration, tax remittance and tax rate determination. Below are the Regression analysis findings.

Table 4.10: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.698 ^a	.487	.431	.74480

a. Predictors: (Constant), Tax registration, Tax filing procedure, Tax remittance, Tax rate determination

The data in Table 4.10 show that the adjusted R-square value stood at 0.431 (43.1%), reflecting how the independent variables had affected the dependent variable. Thus, the remaining 0.569(56.9%) may be attributed to other factors that were not examined.

Table 4.11: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1047.516	4	261.879	69.316	.000 ^b
	Residual	1103.429	292	3.778		
	Total	2150.945	296			

a. Dependent Variable: Tax compliance

b. Predictors: (Constant), Tax registration, filing procedure, remittance, rate determination

The significance value derived from the ANOVA results in Table 4.11 indicates a statistically significant model reliability test result, with a value of 0.000, below the conventional threshold of 0.05 at a 95% significance level. Thus, the model effectively predicts how the research variables relate.

Table 4.12: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	11.519	4.061		2.836	.000
Tax filing procedures	.438	.199	.175	2.201	.035
Tax registration	.175	.059	.127	2.966	.020
Tax remittance	.519	.216	.483	2.403	.042
Tax rate determination	.407	.122	.175	3.336	.000

a. Dependent Variable: Tax compliance

The derived regression coefficients of the model are:

$$Y = 11.519 + .438X_1 + .175X_2 + .519X_3 + .407X_4$$

The regression findings indicated that all independent variables exhibited significance levels below 0.05, suggesting their collective importance. According to the results, while keeping other factors constant at zero, there would be a 15.012 an improvement

in tax compliance. Additionally, the regression analysis revealed that a 0.438 an improvement in tax compliance is corresponded with an improvement in tax filing procedures, while an improvement in tax registration result into a 0.175 an improvement in tax compliance. Moreover, an improvement in tax remittance leads to a 0.519 an improvement in tax compliance, and finally, an improvement in tax rate determination led to a 0.407 unit rise in tax compliance.

4.9 Discussion of Key Findings

4.9.1 Tax Filing Procedure

The study objectives were achieved through analyzing the regression coefficients, which formed the basis of the research goals. This analysis considered the regression coefficients' significance and their associated p-values, as detailed in Table 4.12. Firstly, the research aimed to explore how tax filing procedures impact tax compliance in small businesses. The regression analysis indicated a positive and statistically significant relationship ($\beta_1=0.438$, $t=2.201$, $p<0.05$), indicating that changes in tax filing procedures corresponded to changes in tax compliance. The finding agree with Atawodi and Ojeka (2012) who conducted a study in North-Central Nigeria aimed at analyzing the attributes affecting tax compliance in SMEs. They suggested that SMEs should be subjected to lower tax burdens to allocate more funds towards activities fostering business expansion, thereby enhancing competitiveness.

4.9.2 Tax Registration

This research examined how tax registration influence tax compliance. The regression results indicated a significant effect ($\beta_2=0.175$, $t=2.966$, $p<0.05$), suggesting that alterations in tax registration were associated with changes in tax compliance. The finding concur with Kanyinga (2016) study which observe that the majority of SMEs said they were using e-tax registration and were filling returns online.

4.9.3 Tax Remittance

Objective three assessed how tax remittance affects tax compliance. The regression analysis demonstrated a notable and positive relationship ($\beta_3=0.519$, $t=2.403$, $p<0.05$), implying that variations in tax remittance correlated with changes in tax compliance. The study is consistent with Wambua (2019) who investigated the factors influencing the direct taxes remittance among SMEs. The research disclosed that liquidity, various cost attributes, and remittance expenses significantly affected and were correlated with direct tax remittance.

4.9.4 Tax Rate Determination

Lastly, the study tried determining the impact of tax rate determination on tax compliance in small businesses. The regression analysis revealed a significant and positive effect ($\beta_4=0.407$, $t=3.336$, $p<0.05$), indicating that adjustments in tax rate determination were linked to changes in tax compliance level. The finding is in line with Chindengwike and Kira (2022) who conducted a study examining how tax rates affect taxpayers' voluntary compliance in Tanzania. The research highlighted that favorable tax rates enhance voluntary compliance among taxpayers, underscoring the notable impact of tax rates on voluntary compliance.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section outlines the key discoveries and conclusions drawn from the research, in line with the predetermined objectives. It also offers suggestions based on these findings and identifies potential avenues for future investigation.

5.2 Summary of the Findings

The study objective was to explore the tax compliance procedures and tax compliance of SMEs in Kiambu County. The response rate was 77.1%, this was good. Majority of small businesses have registered with KRA and many businesses had been in operation for 8 years on average.

Based on the descriptive results, participants agreed that online tax filing procedures provided by KRA are complex to understand and that in there is no ease of tax filing as the systems are not straight forward. Participants agreed that tax filling period provided by KRA is not flexible and that the filing of tax requirements from KRA makes it difficult for my business to file tax returns. Respondents agreed that the tax filing procedures requires computer knowledge which they lack.

Participants agreed that tax registration process through online portal for MSMEs has been simplified and that the requirements by KRA for tax registration makes it hard for MSMEs to register for tax. However, respondents disagreed that tax registration by small businesses is viewed as punitive and it is avoided at all costs. Participants were indifferent with the fact that the availability of iTax registration system making it easy to register for tax. Respondents agreed to the assertion that tax registration by small businesses has many compulsory information fields which most businesses do not have.

Participants agreed that the tax remittance frequency provided by KRA is difficult to comply with in my business and that the self-assessment tax remittances have simplified tax remittance process. Respondents also agreed that tax remittance by small businesses is costly as most owners seek paid services and that the tax category requirement during remittance process is hard to understand in the case of small businesses. Respondents were indifferent to the statement that remittance of taxes by small businesses requires enforcement.

According to a descriptive study, respondents agreed that the small businesses experience challenges in determining tax rates due and that the tax code provided by KRA is easy to understand and calculate. Respondents also agreed that the small business owners/managers do not have access to tax rate code and that the KRA tax rate code is ambiguous and not easy to understand which tax affects particular small business. Respondents disagreed that KRA provides tax calculator to small scale traders which makes it easy to understand the tax due.

5.3 Conclusions of the Study

The study concludes that having a structured tax filing process in place can help SMEs stay organized and ensure that they are meeting all of their tax obligations. This can help prevent errors and omissions in tax filings, which can lead to penalties and fines from tax authorities. Additionally, a streamlined tax filing process can help SMEs better understand their tax liabilities and plan for them accordingly. By having a clear picture of their tax obligations, SMEs can budget and set aside funds for tax payments, reducing the risk of financial strain when tax season comes around.

The study concludes that registering for taxes ensures that SMEs are operating within the legal framework set by the government. This helps in avoiding penalties and legal consequences for non-compliance. Tax registration can make SMEs eligible for various

government incentives and benefits, such as tax breaks, grants, and subsidies. This can help in reducing the tax burden on SMEs and encouraging compliance. Tax registration can enhance the credibility of SMEs in the eyes of customers, suppliers, and financial institutions. This can lead to increased trust and confidence in the business, which can help in attracting more customers and investors.

The study concludes that by remitting taxes on time, SMEs can ensure they are compliant with tax laws and regulations. This can help them avoid penalties and legal issues that can arise from non-compliance. SMEs that remit taxes regularly may be eligible for government support programs and incentives. This can include access to grants, loans, and other forms of financial assistance that can help them expand their operations. Paying taxes on time can enhance the reputation of SMEs in the eyes of customers, suppliers, and other stakeholders. This can help build trust and credibility, which can be beneficial for attracting new business and partnerships.

The study concludes that when tax rates are set at reasonable levels, SMEs are more likely to voluntarily comply with tax laws rather than resorting to illegal means to avoid paying taxes. The transparency and predictability of tax rates can also encourage SMEs to comply with tax regulations. When SMEs have a clear understanding of how much they are expected to pay in taxes, they are more likely to budget and plan accordingly. This reduces the likelihood of errors or omissions in tax reporting and helps SMEs avoid penalties for non-compliance. By setting tax rates that are conducive to business growth and investment, governments can create a more favorable environment for SMEs to thrive. Lower tax rates can incentivize entrepreneurship and innovation, leading to increased economic activity and job creation,

5.4 Recommendations of the Study

The study recommends that KRA should streamline the tax filing process by implementing digital solutions such as online tax filing platforms or software that can automate the process and reduce the likelihood of errors. This can save SMEs time and resources by simplifying the tax filing process and ensuring compliance with tax regulations. KRA should provide SMEs with access to tax experts or consultants who can help them navigate the complexities of tax laws and regulations. These experts can provide guidance on tax planning strategies, help SMEs identify potential tax deductions or credits, and ensure that they are in compliance with all tax laws.

The study recommends that the tax registration forms should be made user-friendly and easy to understand. Complex and lengthy forms can discourage small and medium-sized enterprises (SMEs) from registering for taxes. Developing online platforms for tax registration can significantly enhance the ease and convenience of the process. SMEs can register for taxes from the comfort of their own offices or homes, eliminating the need for physical visits to tax offices. Providing clear and concise guidelines and instructions for tax registration can help SMEs understand the requirements and procedures better.

The study recommends that one way to enhance tax adherence is by simplifying tax processes for small and medium enterprises (SMEs). This can be achieved by reducing the complexity of tax regulations, providing clear guidelines, and streamlining tax filing procedures. Offering tax education programs and support services can help bridge this gap. These initiatives can include workshops, seminars, and online resources that provide guidance on tax compliance, record-keeping, and tax planning. Incentives and rewards can be effective in encouraging SMEs to comply with their tax obligations.

Governments can consider providing tax credits, deductions, or exemptions for businesses that consistently meet their tax obligations.

The study recommends that KRA can provide tax incentives to encourage SMEs to invest, innovate, and grow. These incentives can include tax credits for research and development activities, accelerated depreciation allowances for capital investments, or tax breaks for hiring new employees. By reducing the tax burden on SMEs, these incentives can stimulate economic growth and job creation. The use of digital technologies can greatly enhance the tax rate determination process for SMEs. Governments can develop online platforms or software tools that automate tax calculations, filing, and payment processes. These digital solutions can simplify tax compliance for SMEs, reduce errors, and improve efficiency.

5.5 Suggestions for Further Study

The scope was restricted to tax code complexity focusing SMEs tax compliance. Nonetheless, further study be done on other tax code complexity determinants to ascertain how they affect tax compliance of small businesses since the study's independent variables explained the 48.7% of the results. More research should be undertaken using longitudinal design so as to compare the findings over time.

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APPENDICES

APPENDIX I: Introduction Letter

Dear Respondent

RE: DATA COLLECTION

My name is Kamau Stephen Wachira. I am an MBA (Finance) student from Kenyatta University doing a survey on the **effect of Tax Code Complexity on Tax compliance among MSMEs in Thika Town, Kiambu County**. Data confidentiality will be assured and only be used for academic purposes only. Kindly give honest responses.

Thanks in advance.

Kind Regards.

Kamau Stephen Wachira

Researcher,

Kenyatta University

APPENDIX II: Research Questionnaire

Instructions: Please respond appropriately to the questions and for questions that require you to rate, use “1 – Strongly disagree, 2 – Disagree, 3 – Indifferent, 4 – Agree, 5 – Strongly agree”

SECTION A: General Information

1. How long have you been with in SME business?
 - a. 1-5 years ()
 - b. 5-10 years ()
 - c. 10-15 years ()
 - d. Above 15 years ()

2. Is your business registered with KRA for tax purposes?
 - a. Yes ()
 - b. No ()

3. Do you believe the tax code is more complex to understand?
 - Yes ()
 - No ()

SECTION B: Tax Code Complexity

State the extent of agreeing or disagreeing with these statements.

	Tax Filing Procedures	1	2	3	4	5
B.1	Online tax filing procedures provided by KRA are complex to understand					
B.2	There is no ease of tax filing as the systems are not straight forward					
B.3	The filing of tax period provided by KRA is not flexible					
B.4	The filing of tax requirements from KRA makes it difficult for my business to file tax returns					
B.5	The tax filing procedures requires computer knowledge which am lacking					

	Tax Registration	1	2	3	4	5
C.1	Tax registration process through online portal for MSMEs has been simplified					
C.2	The requirements by KRA for tax registration makes it hard for MSMEs to register for tax					
C.3	Tax registration by small businesses is viewed as punitive and it is avoided at all costs					
C.4	The availability of iTax registration system making it easy for tax registration					
C.5	Tax registration by small businesses has many compulsory information fields which most businesses do not have					

	Tax Remittance	1	2	3	4	5
D.1	The tax remittance frequency provided by KRA is difficult to comply with in my business					
D.2	The self-assessment tax remittances have simplified tax remittance process					
D.3	Tax remittance by small businesses is costly as most owners seek paid services					
D.4	The tax category requirement during remittance process is hard to understand in small businesses					
D.5	The remittance of taxes by small businesses requires enforcement					

	Tax Rate Determination	1	2	3	4	5
E.1	The small businesses experience challenges in determining tax rates due					
E.2	The tax code provided by KRA is easy to understand and calculate					
E.3	The small business owners/managers do not have access to tax rate code					
E.4	The KRA tax rate code is ambiguous and not easy to understand which tax affects particular small business					
E.5	The KRA provides tax calculator to small scale traders which makes it easy to understand the tax due					

SECTION C: TAX COMPLIANCE

Secondary Collection Sheet

	2018	2019	2020	2021	2022
% rate of tax collected					
Total					

Thank you for You Co-operation

APPENDIX III: Approval Letter



KENYATTA UNIVERSITY
GRADUATE SCHOOL

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

Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 810901 Ext. 4150

Internal Memo

FROM: Executive Dean, Graduate School

DATE: 20th March, 2024

TO: Kamau Stephen Wachira
C/o Accounting and Finance Dept.

REF: D53/OL/MSA/28129/2019

SUBJECT: APPROVAL OF RESEARCH PROPOSAL

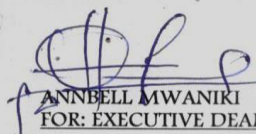
We acknowledge receipt of your revised Research Proposal as per our recommendations raised by the Graduate School Board of 13th March, 2024 entitled "Tax Compliance Procedures and Tax Compliance of Small and Medium Enterprises in Thika Town, Kiambu County, Kenya."

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 and Progress Report Forms per semester. The forms are available at the university's website under Graduate School webpage downloads.

Also, please ensure that you publish article(s) from your project before submitting it to Graduate School for examination as per the Commission for University Education and Kenyatta University guidelines.

Thank you.



ANNBELL MWANIKI
FOR: EXECUTIVE DEAN, GRADUATE SCHOOL

C.c. Chairman, Department of Accounting and Finance

Supervisors:

1. Dr. Festus Wanjohi
C/o Department of Accounting and Finance
Kenyatta University

AM/Inn

APPENDIX IV: Research Permit



REPUBLIC OF KENYA

Ref No: **259198**



**NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY & INNOVATION**

Date of Issue: **03/April/2024**

RESEARCH LICENSE



This is to Certify that Mr.. STEPHEN KAMAU WACHIRA of Kenyatta University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Kiambu on the topic: TAX COMPLIANCE PROCEDURES AND TAX COMPLIANCE OF SMALL AND MEDIUM ENTERPRISES IN KIAMBU COUNTY, KENYA for the period ending : 03/April/2025.

License No: **NACOSTI/P/24/34408**

259198

Applicant Identification Number

Director General
**NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY &
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