

**SOCIAL ECONOMIC ATTRIBUTES AND TAX COMPLIANCE BY INDIVIDUAL  
TAX PAYERS IN KENYA**

**BY:**

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## DECLARATION

This research project is my original work and has never been presented in any other university or institution for examination.

Signature..... Date.....

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This research project has been submitted with my approval as university supervisor.

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## **DEDICATION**

I dedicate this research work to my mother Lucy for laying a good foundation for me by ensuring that I went to school and offering me proper guidance. I dedicate this research work also to my siblings: Isaac, Triza, Pedro and Rachel for supporting and encouraging me throughout my degree program. May God always shower you with His blessings.

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## OPERATIONAL DEFINITION OF TERMS

- Income Tax:** This is the levy imposed directly on income of taxpayer derived from employment, business, rent, interests, pensions, dividends among others.
- Social-economic attributes:** This involve factors such as taxpayer's knowledge on tax laws and regulations; Individual taxpayer's characteristics such as age, level of education, income and level of tax law complexity that influences decision making of a taxpayer.
- Tax compliance:** This is the degree with which a taxpayer abides by the tax laws and regulations of the country.
- Tax Knowledge:** This is the extent of taxpayer awareness or sensitivity to tax legislation.
- Tax Legislation:** This involves all statutes, statutory instruments, orders, enactment, laws, by laws, directives and regulations whether domestic or foreign decrees that constitute provisions for tax.
- Tax Penalty:** The punitive action that the law imposes on person who contravenes tax law and regulations.
- Tax performance:** This refers to the ability of revenue collection authority to achieve certain predetermined revenue collection in relation to a specified target of certain fiscal year.

## **ABBREVIATIONS AND ACRONYMS**

<b>BROP</b>	Budget Review Outlook Plan
<b>CUE</b>	Commission of University Education
<b>FY</b>	Financial Year
<b>GDP</b>	Gross Domestic Product
<b>IMF</b>	International Monetary Fund
<b>KES</b>	Kenya Shilling
<b>KPI's</b>	Key Performance Indicators
<b>KRA</b>	Kenya Revenue Authority
<b>NACOSTI</b>	National Commission for Science Technology and Innovation.
<b>OECD</b>	Organization for Economic Cooperation and Development
<b>PAYE</b>	Pay As You Earn
<b>SPSS</b>	Statistical Package for Social Sciences
<b>VIF</b>	Value Inflation Factors

## ABSTRACT

Tax revenues are crucial financial resources for any economy and play a key role in economic development. In Kenya tax revenues are the major source of government budgetary resources besides other sources such as grants and loans. The average GDP growth rate in Kenya from FY 2006/17 to FY 2016/17 has been 5.6 percent which is higher than the global GDP growth rate of 2.3 percent. Conversely, Kenya's tax revenue has not grown at the same pace as the economic growth. Weaknesses in revenue performance have triggered fiscal pressures. Budget deficits have fueled external borrowing amid efforts for the country to capitalize on domestic resource mobilization. Social economic attributes are crucial with regards to tax compliance by individual taxpayers since individual taxpayers have to be aware as well as being sensitive to tax legislation for them to be tax compliant. This study was set out to ascertain effects of taxpayer knowledge, tax complexity and individual taxpayer's characteristics on tax compliance by individual taxpayers in Kenya. The study further sought to ascertain the moderating effect of tax penalties on relationship between social economic attributes and tax compliance by individual taxpayers in Kenya. The study was anchored on Social Learning Theory, Economic Deterrence Theory and Theory of planned behaviour. Cross sectional descriptive research design was adopted in this study. This study targeted the individual taxpayers who were registered with KRA. The study targeted on 4806 staff from five Public Universities in Nairobi City County. Researcher used primary data which was gathered through administering questionnaires to respondents. Data collected was analysed using descriptive statistics and multiple regression. The results postulated that tax knowledge had a significant effect on tax compliance by individual taxpayers in Kenya. The study also found that tax complexity had a significant effect on tax compliance by individual taxpayers in Kenya. In addition, individual taxpayer's characteristics had a significant effect on tax compliance by individual taxpayers in Kenya. Further, the study found tax penalties had a significant moderating effect on the relationship between social economic attributes and tax compliance by individual taxpayers in Kenya. The study found that the taxpayers sought tax consultants to file their returns. The study moreover found that the taxpayers did not seek updates regarding changes in tax law and regulations and were not conversant with Income Tax Act CAP 470. The study therefore recommends that KRA should educate the public on any changes of tax laws and also ameliorate the readability of the tax laws and hence reduce the complexity of the tax law. For KRA to achieve their target compliance level, there is need to have taxpayers understand the reasons why need to pay tax on time. KRA should sensitize the taxpayers on the importance of paying tax via civic education.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

Taxation is vital for sustainable economic development. Administration of tax is crucial for success of an economy. According to Moore et al. (2005), taxes as well as tax system are key aspects in nation building which involves capacity building for substantial economic development. Tax revenues are the major source of government budgetary resources in Kenya besides other sources such as grants and loans. Lymer and Oats (2010) suggested that in order for a leverage to be created in between taxpayers and tax collection authority, the latter need to come up with ideal mechanisms to enhance tax procedures and requirements. Taxation gaps and budget shortfalls lead to dependence on grants and loans to seal the revenue–expenditure gap. The worst affected by this challenge are developing countries. The loans are composed of external debt and local debts.

According to IMF (2018), a typical lower-income country raises just 15% of GDP in taxes, in contrast with 40% collected by a typical advanced economy. Tax collection capability is crucial for a country's capacity to fund social services like facilitating education, security, health facilities and infrastructure development. In consideration of extreme needs among the low income countries, the low level of tax collection put economic development of these countries at risk.

Rahayu (2010) posits that the reason of low tax collection is as a result of a range factors, key among them being low level of taxpayers' compliance. According to OECD (2014), revenue raised from taxation provide economies with funds that are essential for them to invest in development, relieving poverty as well as delivering public services. Fostering domestic resource mobilization,

is not just a matter of raising revenue but it rather involves designing revenue system that that encourages good governance, inclusiveness, improves accountability of government to citizens and promotes social justice.

Globally most economies have recorded a significant improvement in their revenue collection over the past decade. Conversely, about half of countries in the sub-Saharan African tend to generate tax revenues that is less than 17% of their respective GDP, this is below the minimum threshold as stipulated by the United Nations for the Sustainable Development Goals to be realized. The challenge of increasing revenue from domestic sources has been eminent in low-income countries (OECD, 2010). Uganda tax collection accounted 14% of the nation's GDP which is less than regional peers and below government's target of 16%. Poor tax collection is due to poor tax compliance by Uganda's taxpayers (Sebudde et al., 2018). International development community have been supporting developing countries in the taxation area as well as domestic resource mobilization (OECD, 2014).

According to Kloeden (2011), in most of the developing countries, tax revenues tend be the major performance indicator, conversely, in developed economies tax collection authority conduct a variety of assessments for tax performance, whereby economies can be categorized based on degree of tax performance such as high, low or average. The assessment of tax performance tends to depend on tax compliance level, hence the terms tax performance and tax compliance are used correspondingly. Compliance level is ideal for good tax revenue performance.

### **1.1.1 Social-economic attributes**

Hamm (1995) argued that there is a link in between level of taxpayer's income and taxpayer's knowledge. As the income of a taxpayer increases, tax knowledge also increases hence taxpayer



tend to be tax compliant. Chan et al. (2000) and Mamun et al. (2014) stated that taxpayers possessing high level of education tend to possess impeccable moral values and tax knowledge hence have higher tendency to comply with tax legislation. Enginda and Baisa (2014) suggested that individual taxpayer education and tax compliance do not relate.

According to Hasseldine et al. (2009) tax knowledge is extent by which a taxpayer is sensitive to tax law and regulations. Kasippilai (2000) argued that it is vital for taxpayers to possess tax knowledge in order to enhance them in reporting the accurate tax due or liability they ought to remit to the revenue authority. According to Saad et al. (2003) and Loo et al. (2009) knowledge of taxation play a key role in influencing taxpayer`s compliance behavior. According to Kirchler et al. (2006), taxpayer who possess tax knowledge tend to have higher compliance rates. Chattopadhyay and Das-Gupta (2002) argues that taxpayers without tax knowledge have to seek tax consultancy services from tax professionals.

According to Nurlis (2015), taxpayers possessing sound knowledge of tax issues have a higher tendency to meet their tax obligations, this is because they know the law and regulations that they need to adhere to. Sound knowledge on taxation issues enhances taxpayers understanding on regards to importance of remitting their taxes besides receiving public goods and services as benefits. Tax knowledge is vital in minimization of the level of corruption and tax fraud. According to Csontos et al. (1998), general formal education received by tax payers regarding tax requirements is crucial on regard to filing and registration requirements. Further, on normal occasions taxpayers have limited knowledge appertaining to actual government expenditures and the actual value of indirect services the government offers to the public. Lai (2013) argues that tax knowledge is essential for a taxpayer to compute his respective tax liability accurately.

Kirchler et al. (2001) postulated that a positive correlation exists between tax knowledge and tax compliance. Taxpayers possessing knowledge of taxation are more tax compliant than taxpayers without adequate tax knowledge. This implies that taxpayers with sound knowledge of tax issues tend to perceive tax avoidance to be more positive in comparison tax evasion whereas taxpayers possessing lower level of tax knowledge tend to deem tax evasion as more positive than tax avoidance. Revenue authorities should provide taxpayers with relevant information with regard to the tax system and guidelines taxpayers ought to follow in order for them to meet their tax obligations.

Tax complexity influences tax compliance by the taxpayer depending on the orientation the taxpayer has towards the tax system (Alm, 1988; Hite & McGill, 1992). According to Boortz and Linder (2005) in context whereby taxpayers incur higher cost for them to understand a complex tax system this causes discrepancy since some of the taxpayers will pay less tax than others since they exploit all avenues of tax avoidance whereas taxpayers who are not familiar with the system will pay more taxes. Tax complexity makes it difficult to interpret tax law, so that the law become simply comprehended by the taxpayer (Graetz & wilde, 1985; Milliron, 1985; New York State Bar Association, 1972).

Richardson and Sawyer (2001) argued that tax complexity is attributed by heightened sophistication of tax law. Sophisticated tax law tend to make tax system to be more complex. Tax complexity are of various nature including: computational complexity, forms complexity, compliance complexity, procedural complexity and low level of readability (American Institute of Certified Public Accountants, 1992; Carnes & Cuccia, 1996; Cox & Eger, 2006; Pau et al., 2007; Richardson & Sawyer, 1998; Saw & Sawyer, 2010).

According to New York State Bar Association (1972) there exists the tendency of tax complexity building up tax compliance by taxpayers. Taxpayer tend to believe that complex tax system will result to equity and equality in the economy. However, Milliron (1985) argued that taxpayers might view complexity of tax legislation with inequality and unfairness perspective. Taxpayers perceiving tax complexity to be not justified may develop a negative orientation towards the tax system since they perceive it to be not equitable hence might be prone to be non-compliant.

### **1.1.2 Tax Compliance**

James and Alley (2002) argued that tax compliance is the commitment of taxpayer to be abide by the tax law without use enforcement agency. Brown and Mazur (2003) posit that tax compliance can be described by contemplating on a range of forms of compliance which include: payment compliance, filing compliance and reporting compliance. Cobham (2005) stated that tax compliance has become an issue to many economies as assessed using actual tax to GDP ratio however measure have been taken to enhance it in various countries, this is because of it being vital to economies.

According to KRA (2018), revenue performance dominates any assessment of the authority's performance. According to KRA (2019) tax revenue to GDP peaked in FY 2013/14 at 19.0% prior to decreasing by about 16.7% in FY 2018/19 .This was attributed by: Changes in the structure of the economy introduced in FY 2014/15 which leaned on non-taxable component of GDP hence leading to decrease of tax base which accounts for 1.24 percentage decline ; Shift in discretionary policy leading to significant loss of actual revenue collected; In FY 2017/18 there was a drastic drop attributed by underperformance of corporation tax triggered by interest rate capping for banks and heightened tax exemptions and remissions leading to decrease of taxable base.

According to Nurmantu (2012) tax compliance can either be formal compliance or material compliance. Formal compliance is compliance in relation to the deadline of collecting annual tax returns. However, a taxpayer who abides formal compliance criteria does not always fulfill the material compliance criteria. Material compliance criteria is whereby a taxpayer fulfils all material provisions in form of truthful content in accordance with tax laws. A taxpayer who fulfils material compliance criteria simultaneously fulfils formal compliance criteria.

### **1.1.3 Kenya Revenue Authority**

KRA was established in 1995 by an Act of Parliament under Chapter 469 of Laws of Kenya. Kenya Revenue Authority key role is acting an agent of collecting taxes for the government of Kenya. KRA accounts for more than 95% of the Government earned Revenues. The authority collects agency revenue for several government agencies as well as administer the revenue aspect of 18 Acts of Parliament. Categorically, the key roles of KRA are: Ascertain revenue to be collected, collecting revenue and giving account of all revenues collected pursuant to specific laws set out in the First Schedule besides various provisions stipulated in second part of the First Schedule consisting of revenue laws; Advicing accordingly on issues appertaining to revenue administration and revenue collection pursuant to the written laws. Kenya revenue Authority key performance indicators are grouped under five headings: Revenue performance, Operational performance, resource utilization, customer service and electronic services (KRA, 2015). This study anchored on tax compliance by individual taxpayers in Kenya.

According to KRA (2019) in the FY 2018/2019, KRA launched 11 tax services offices increasing the aggregate number of tax services offices in the country to 43. This has enhanced the number of tax centers whereby the taxpayers can enquire on issues appertaining to taxation. This led KRA

to resolve 3,120,139 taxpayers' enquiries. Redesigning service delivery approach enabled KRA to recruit 1.11 million new taxpayers. This attributed to increase of more than 3.9 million taxpayers filing their returns in the FY 2018/2019. In the FY 2018/2019, Pay as You Earn grew by 7.9%, an increase from KES 364,101 million in FY 2017/2018 to KES 392,693 million in FY 2018/2019.

## **1.2 Statement of the problem**

According to KRA (2019) tax to GDP ratio in Kenya declined by 0.7 percentage points from 19.0% in FY 2013/14 to 18.3% in FY 2014/15. In the financial year 2015/2016, tax to GDP ratio further declined by 0.3 percentage points from 18.3% in FY 2014/15 to 18.0%. Tax to GDP ratio in declined by about 0.2 percentage points from 18.0% in FY 2015/16 to 17.8% in FY 2016/17. There was a further decline by 0.9 percentage from 17.8% in FY 2016/17 to 16.9% in FY 2017/18. Tax to GDP ratio in Kenya decreased by 0.2 percentage points from 16.9% in FY 2017/18 to 16.7% in FY 2018/19.

According to World Bank (2017) over the past decade the GDP growth rate has averaged 5.6 percent in Kenya a growth that is higher than the global GDP growth rate of 2.3 percent. Conversely to robustness of Kenya's GDP, tax revenue growth trend has not been linearly uniform with economic growth trend. This has led induced fiscal pressures due to poor tax revenue performance by KRA. Level of revenue collection has been bypassed with the expansion expenditures hence leading to fiscal deficits in the economy. In the FY16/17 revenue increased by 13.3 percent in nominal terms whereas tax revenues grew by less than nominal GDP 14.9 percent. This triggered tax-to-GDP ratio to decline to 16.9 percent of GDP, the lowest level in a decade.

The government expenditures have been increasing while revenue generation has been missing set targets. Recurrent expenditures alone absorbed 90.2 percent of revenue collected hence leaving

limited space for development expenditures (National Treasury, 2017). Actual collected Income tax in FY 2013/14 failed to meet targeted income tax by KES 1.3 billion. In the FY 2014/15 actual income tax collected failed to meet targeted income tax by KES 23.9 billion. In the FY 2015/16 actual income tax collected failed to meet the target income tax by KES 17.2 billion. Conversely in the FY 2016/17 actual income tax collected surpassed targeted income tax by KES 1.18 billion. In the FY 2017/18 actual income tax collected missed target income tax by KES 69.6 billion. In the FY 2018/19 actual income tax collected failed to meet targeted income tax by KES 53.5 billion (KRA ,2019). The study on social-economic attributes is crucial towards establishing its effects on tax compliance by individual taxpayers in Kenya

Taiwo et al. (2020) studied on national culture and taxation performance within Africa. That study assessed the impact of national cultural dimensions such as individualism, distance of power, long-term perception and satisfaction on tax collection performance in ten African countries. The study ascertained that satisfaction has a positive influence on tax revenue performance whereas there was negative relationship in between power distance, individualism, long term performance and tax revenue performance. The current study assessed if tax penalties do moderate relation between social economic attributes and tax compliance by individual taxpayers in Kenya. The current study examined effects of tax knowledge, tax complexity and individual taxpayer`s characteristics on tax compliance by individual taxpayers in Kenya.

Saad (2014) examined correlation between tax complexity, tax knowledge and tax compliance. Data was collected via telephone interviews and the study was done in Malaysia. It was established, tax complexity had a contributing factor to non-compliance among the taxpayers. The study established that if a tax system is complex taxpayers tend to incur more compliance costs. A

tax system with tedious procedures is perceived to be inherently complex. Taxpayers have a tendency of being non-compliant in the event they possess the perception that the tax system is too complex. However, this current study was ascertaining impact of tax knowledge, tax complexity and individual taxpayer`s characteristics on tax compliance by individual taxpayers in Kenya. The current study further sought to ascertain if tax penalties do moderate the relation between social economic attributes and tax compliance by individual taxpayers in Kenya

Wadesango and Mwandambira (2018) did a study to assess whether tax knowledge affects tax compliance by small medium enterprises in Zimbabwe. That study established that small medium enterprises in possess basic knowledge about taxation however they tend lack sound knowledge on advanced taxation issues such as differentiating presumptive taxation from income based taxation. It was ascertained that tax does not have a significant influence on their noncompliance traits. However, the current study assessed the impact not only of tax knowledge but also tax complexity and taxpayer`s individual characteristics on tax compliance by individual taxpayers in Kenya.

Mukasa (2011) carried a study on tax knowledge, perception of fairness taxation alongside tax compliance in Uganda. That study ascertained that tax knowledge had a positive significant influence on tax compliance as well as perception of fairness taxation had a positive influence on tax compliance. The indicator used for measure of tax knowledge were: abstract and concrete knowledge. However, the current study was conducted in Kenya focusing on KRA taxpayers. The measurement indicators for the study are: ability to compute tax liability, ability to file returns timely and consulting tax experts. The study assessed whether tax knowledge affected tax compliance by individual taxpayers in Kenya.

Bernardin et al. (2020) examined tax revenues among countries prone to fragility and conflicts. The study was prompted low tax revenues among countries prone to fragility and conflicts. The study focused on four countries namely: Liberia, Malawi, Solomon Islands and Nepal. The study established that reforms in tax administrations can be done even in context of weak institutions moreover political goodwill is vital for sustainable tax reform. The current study sought to ascertain if tax knowledge affects tax compliance by individual taxpayers in Kenya.

### **1.3 Objective of the study**

The general objective was to examine the relation between social economic attributes and tax compliance by individual taxpayers in Kenya.

#### **1.3.1. Specific Objective**

This study was guided by the following specific objectives:

- i. To establish effects of tax knowledge on tax compliance by individual taxpayers in Kenya.
- ii. To ascertain effect of tax complexity on tax compliance by individual taxpayers in Kenya.
- iii. To assess the impact of individual taxpayer's characteristics on tax compliance by individual taxpayers in Kenya.
- iv. To ascertain whether tax penalties have moderating effect on the relationship between social economic attributes and tax compliance by individual taxpayers in Kenya.

### **1.4. Research Hypothesis**

This study was guided by the following null hypothesis:

**H<sub>01</sub>** Tax knowledge has no significant effect on tax compliance by individual taxpayers in Kenya.



- H<sub>02</sub>** Tax complexity has no significant effect on tax compliance by individual taxpayers in Kenya.
- H<sub>03</sub>** Individual taxpayer's characteristics have no significant effect on tax compliance by individual taxpayers in Kenya.
- H<sub>04</sub>** Tax penalties have no significant moderating effect on relationship between social economic attributes and tax compliance by individual taxpayers in Kenya.

### **1.5 Significance of the Study**

These research findings might give deeper insight to budget officers in charge of formulating Budget Review Outlook Plan (BROP) in the National Treasury with regards to effects of tax knowledge, tax complexity and individual taxpayer's characteristics on and tax compliance by individual taxpayers in Kenya. Upon completion of this research, the research findings would be utilized by other scholars, academicians and research as a point of reference. This study sought to enlighten taxpayers on need for them to possess sound knowledge of tax laws and tax legislation. This study might give a deeper insight to the tax consultants on how they should support taxpayers who are not seasoned in taxation issues. The study of tax knowledge, tax complexity and individual taxpayer's characteristics and tax compliance by individual taxpayers in Kenya, might disseminate crucial information to donors on regards to shortfalls in revenue targets and causes of fiscal pressures in Kenya's Economy.

### **1.6 Scope of the Study**

This research was set out to ascertain social economic attributes and tax compliance by individual taxpayers in Kenya. The study utilized primary data. Primary data was amassed through administering questionnaires to the respondents. The survey was conducted in the month of March

2021. The persons targeted for this particular study are taxpayers who had KRA Personal Identification Number. This assisted the researcher gather information that is more reliable and of acceptable accuracy. The study focused on taxpayers who have registered with KRA. This study targeted staff of five Public Universities within Nairobi City County.

### **1.7 Limitation of the study**

Some respondents got tied up in their respective working schedules, this hindered effective data collection. This was because respondents who were occupied never had ample time to fill the questionnaires so as to give information required for research. The researcher mitigated the above problem by administering the questionnaires to respondents through drop off / pick up method. Riley et al. (2002) and Steele et al. (2001) found that, in a contrast between drop off / pick up method and other surveying techniques, drop off / pick up method is time efficient, economical as well as typically results in higher completion rates.

### **1.8 Organization of the Study**

The research project is made up of five chapters. Chapter one touches on background as well as introduction of social-economic attributes and tax compliance. The Chapter also contains the statement of the problem, objectives of the research, research hypothesis, significance of the study, scope of the study and limitations of the study. Chapter two consists of review of the theoretical of previous related research studies, empirical literature that unravel the empirical research gaps, summary of research gaps derived from empirical research gaps and conceptual framework of the study. Chapter three involves; adopted research design, targeted population, sample design, data collection instruments and kind of model used for analysing of data collected for the study. Chapter four entailed analysis done in this study and findings of the study. This study finalized with chapter five consisting discussion, conclusion, and recommendations and areas needing further research.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The study focused on assessing effects tax knowledge, tax complexity and individual taxpayer's characteristics on tax compliance by individual taxpayers in Kenya. This chapter covers theoretical review as well as empirical literature review. The theoretical review covers theories of taxation. The empirical touches on documented work with regarding to tax knowledge, tax complexity, individual taxpayer's characteristics and tax penalties.

#### **2.2 Theoretical Review**

Theoretical review assesses previous related literature done on related studies and focused on thematic areas highlighted in the objective. Theories enable one to understand the problem and make it known what other scholars from a holistic approach.

##### **2.2.1 Social Learning Theory**

Social learning theory postulates that a person can acquire new behaviours via observations and also via direct experience (Bandura, 1977). Social learning is a cognitive process and can only be featured in a social setting. The social learning cycle involves: process of attention, retention, motoric reproduction and reinforcement exercise. Good practices are regularly rewarded whereas negative practices are punished in order to desist bad behaviours. This enhances or promotes good behaviour within the society (Bandura, 1977).

According to Jatmiko (2006) social learning theory is salient in featuring how the taxpayers conduct themselves with regards to complying with tax legislations. Taxpayers tend to follow the

precedent norm that does not attract punishment. Taxpayers are willing to meet their tax obligation once their orientation towards the government is enhanced. If they find out that tax collected is well utilized in financing public goods hence these enhances their will to abide with tax rules and regulations. Taxpayers have a tendency of complying with tax regulations in order to avert being fined, in the event they have been fined before or they observed another taxpayer being fined. This cultivates the norm of taxpayers paying attention to details of the whole taxation system within their jurisdiction.

This study sought to examine whether social-economic attributes which includes individual taxpayer`s characteristics, tax knowledge and tax complexity affects tax compliance by individual taxpayers in Kenya. This study endeavoured to ascertain if tax penalties do moderate relation between social economic attributes and tax compliance by individual taxpayers in Kenya. It is upon this modern theory that the objective of this study was based.

### **2.2.2 Economic Deterrence Theory**

Economic Deterrence theory was developed by Becker (1968). Over the years there has been great development towards Economic deterrence theory with particular reference to different forms of sanctions. This theory is guided by the principle, in the event punishment or fine exceed the merits of doing a crime, the individual practicing crime get deterred from conducting that particular offence. Punitive sanctions tend to inhibit individual from committing offence since they find them too harsh as compared to the benefit they accrue when committing the crime. According to deterrence theory rational taxpayers will either opt to comply or contravene with tax law depending on the merits and disadvantages of their respective actions.

Allingham and Sandmo (1972) augmented the expected utility model on criminal activity established by Becker (1968) to taxation. The rationale of this model is that a rational taxpayer will tend to evade remitting his tax dues when the material gain as proceeds of tax evasion exceeds the cost of sanction for contravening tax legislation. The model involves various aspects including: the taxpayers have some degree of risk aversion. A risk averse taxpayer tends to reduce the risk of committing tax evasion since it leads the taxpayer to incur sanctions. During decision making, the taxpayer considers avenues that will enable him to optimize expected utility. In cases whereby audit is conducted, underreporting of tax liabilities by taxpayers is reduced. This theory implies that taxpayers pay taxes since they do not want to be sanctioned for not complying with tax legislation. Knowledge of tax law is salient as far as compliance and contravention of tax regulation is concerned. This study aimed at ascertaining if tax penalties do moderate relation between social economic attributes and tax compliance by individual taxpayers in Kenya.

### **2.2.3 Theory of Planned Behavior**

This theory of planned behavior posits that human traits are triggered by three attributes, these include: normative beliefs, behavioral beliefs and control beliefs (Fishbein & Ajzen, 1975). Behavioral beliefs lead to either positive or negative orientation towards the respective trait. Normative beliefs lead to subjective norms whereas control belief result to perceived behavioral control. Positive orientation towards a certain character besides subjective norm do shape individual's moral norms. Actual control is necessary for individual conduct; it regulates individual intentions.

In the event taxpayers believe that by remitting their tax returns to the government they will have a return by accessing social amenities, they do develop positive orientation towards the

government. The no quid pro quo basis used for distribution public goods and services tend to demotivate taxpayers from paying their taxes since they feel being disenfranchised by the model, this is prevalent among the largescale taxpayers. Tax penalties are used to regulate the taxpayer's behavior hence control beliefs. Taxes penalties do inhibit non-tax compliance and promotes tax compliance by individual taxpayers. The degree of taxpayer compliance was attributed by taxpayer's perception on whether tax penalties fortifies the taxpayers in adhering to their respective tax obligations (Arum, 2012).

Behavioral beliefs, control beliefs, and normative beliefs are key attribute to taxpayer's behavior. These factors dictate taxpayer's intention on regards adherence of tax law and regulation (Mustikasari, 2007). Theory of planned behaviour is crucial to this study, this is because the study aimed in assessing if tax knowledge, tax complexity, individual taxpayer's characteristics affects tax compliance by individual taxpayers in Kenya. Further, the study assessed tax penalties besides individual taxpayer's characteristics in order to establish whether it triggers tax compliance by individual taxpayers in Kenya.

## **2.3 Empirical Review**

This empirical review covers related studies carried out by other researchers.

### **2.3.1 Tax Knowledge and Tax Compliance**

Wadesango and Mwandambira (2018) carried out a study to assess effect of tax knowledge with regards to tax compliance by small medium enterprises in Zimbabwe. That research's findings ascertained that small medium enterprises possessed basic knowledge appertaining to tax matters but lacked deeper insight on issues of taxation such as contrasting presumptive taxation with income based taxation. That study ascertained that tax knowledge doesn't possess a significant

influence on non- tax compliance by the taxpayers. However, the current study assessed the impact not only of tax knowledge but also tax complexity and taxpayer`s individual characteristics on tax compliance by individual taxpayers in Kenya. The indicators for the current study are: ability to compute tax liability, consulting tax experts and ability to file returns timely. The measurement indicators of tax knowledge for the study are: ability to compute tax liability, ability to file returns timely and consulting tax experts

Nurkhin et al. (2018) assessed the relationship in between tax understanding, sensitivity to taxation, tax amnesty and tax compliance by taxpayers in Indonesia. That study established that taxpayer`s understanding and awareness affects tax compliance rather than tax amnesty perception. The study measurement indicator for tax understanding were: Ease of acquiring knowledge of taxation, knowledge and understanding the functions and benefits of tax, Knowledge and understanding in filling tax return, preparing financial reports, and ability to pay taxes, ability to calculate of tax underpayment, Knowledge of administrative and criminal sanctions, Knowledge and understanding of the implementation of sanctions for tax violations and Knowledge of the essence of tax. However, the current study did seek to determine whether tax knowledge impacts tax compliance by individual taxpayers in Kenya. The measurement indicators for the study are: ability to compute tax liability, ability to file returns timely and consulting tax experts.

Mukasa (2011) carried a study on tax knowledge, perception on fairness in taxation and tax compliance in Uganda. That study suggests that tax knowledge had a positive relation with tax compliance as well as perception on fairness in taxation have positive relation with tax compliance. The indicator used for measure of tax knowledge were: abstract and concrete knowledge. However, the current study was conducted in Kenya focusing on KRA taxpayers. The

measurement indicators for the study are: ability to compute tax liability, ability to file returns timely and consulting tax experts. This study assessed if tax knowledge affects tax compliance by individual taxpayers in Kenya.

### **2.3.2 Tax Complexity and Tax Compliance**

Pau et al. (2007) assessed efficiency of newly written Income Tax law in New Zealand and binding rulings using readability measures. It was established that there were significant changes on regards to tax simplification since the newly written income Tax law was readable hence comprehensive to taxpayers. Taxpayers could read the new written tax law with ease and comprehending what the law requires them to abide. Sawyer (2007) concurred that simplification of tax law leads to positive change in terms of taxpayer's capability to read and comprehend the written tax law. The current study assessed whether tax complexity impacts tax compliance by individual taxpayers in Kenya.

Saad (2014) studied on whether tax knowledge, tax complexity affects tax compliance. The research utilized data gathered via telephone interviews and the study was done in Malaysia. It was established that tax complexity is a contributing factor to taxpayers not being compliant. It was established that if a tax system is complex taxpayers tend to incur more costs associated with compliance. Tax system that has tedious procedures is perceived to be inherently complex. Taxpayers tend to be non-compliant when they possess negative perceptions towards a tax system that they deem to be complex. However, the current study assessed on whether tax complexity affected tax compliance by individual taxpayers in Kenya.



### **2.3.3 Individual Taxpayer Characteristics and Tax Compliance**

Chau and Leung (2009) argued that apart from demographic attributes like taxpayer`s age, gender and education, various environmental attributes also affect individual taxpayers` knowledge. The study established that as level of income increases, non-compliance rises. Taxpayers tend to pay less tax in order for them to have better net income. The social-economic factor, known under Fischer model as non-compliance opportunity can potential affect tax knowledge. These variables include: income level, income source and occupation. The study mainly focused on partial enhancement to Fisher Model by integrating environmental factor, culture and interaction impact on making decision between non-compliance opportunity and tax system that enhances tax compliance. The current study involved both demographic factors which consists of age and level of education with an addition to level of income of the taxpayer, which is an environmental factor. These factors were used in ascertaining whether individual taxpayers` characteristics affects tax compliance by individual taxpayers in Kenya.

Taiwo et al. (2020) studied on national culture and taxation performance within Africa. That study assessed the impact of national cultural dimensions: self-centeredness, proximity to power, perception and satisfaction on performance of taxation within ten African countries. The study ascertained that satisfaction had a significant positive influence on taxation performance whereas proximity to power, self-centeredness and perception have got significant negative influence on tax performance. The current study aimed at assessing if tax knowledge, tax complexity and individual taxpayer`s characteristics affect tax compliance by individual taxpayers in Kenya. The indicator to be measured under individual taxpayer`s characteristics are individual taxpayer`s age, income and level of education.

Palil (2010); Ross and McGee (2012) suggested that taxpayer`s age positively affects tax compliance among taxpayers. Both researches did establish that older taxpayers possessed experience regarding tax administration hence this enabled them to comprehend the taxation matters more easily than young taxpayers. The older taxpayers have got a tendency to be more tax compliant. Palil (2010) argued that taxpayers possessing high level of education tend to be more informed of their tax respective tax obligations as well as the likely penalties they are imposed for contravening tax laws. The above research was done in Malaysia and Netherlands. The current study ascertained whether individual taxpayers` characteristics affects tax compliance by individual taxpayers in Kenya.

#### **2.3.4 Tax Penalties and Tax Compliance**

Nuridayu et al. (2017) studied on whether tax penalties affect tax compliance by small and Medium Enterprises in Malaysia. It was established that tax penalties significantly affect tax compliance behavior. Key indicators used to measure of tax penalties were: level of punishment, knowledge and education as well as taxpayer`s attitude. All elements of tax penalties in this study were established to have positive relationship with compliance behavior of taxpayers. However, the current study sought to establish whether tax penalties do moderate the relation between social economic attributes and tax compliance by individual taxpayers in Kenya. The indicators for tax penalties in this study is available forms of tax penalties for non-remittance of income tax and non-filing returns for income tax on time and correctly.

According to Jatmiko (2006) tax penalties aim at inhibiting taxpayers from contravening tax law and regulations. Rational taxpayers that are proponent of being risk averse, hence they will tend to avoid to losses by being sanctioned for contravening tax law and regulations. Taxpayers will prefer

to comply with tax law with a perspective that penalties will be more devastating. Penalties tend to deter taxpayers from violating the tax laws and provisions as stipulated in the income tax law.

Deborah et al. (2003) studied on role of economic and behavioural factors on tax compliance level by the taxpayers in context where there is tax amnesty system. The research focused on examining how economic and behavioural factors affect tax compliance among taxpayers in Arkansas City. It was found that the respondents did not to remit their tax dues, within the stipulated time as well as not filing their respective correct tax returns was based on various grounds including; complexness of the tax legislation, propensity to pay, ignoring tax legislations and the perception regarding high rates of taxation as well as unfairness of the taxation system. However, this current study focused on moderating effect of tax penalties on correlation between social economic attributes and tax compliance by individual taxpayers.

#### **2.4 Summary of Literature Review and Research Gaps**

This study reviews on the Social Learning theory, Economic Deterrence Theory and Theory of Planned Behaviour. This chapter has reviewed various literatures that constitute the study variables. Through the review of the above literature various research gaps have been identified. The research gaps are depicted in Table 2.1

**Table 2.1: Summary of Research Gaps**

<b>Authors</b>	<b>Objective of the Study</b>	<b>Findings</b>	<b>Research Gaps</b>	<b>Address the Research Gap</b>
Taiwo et al. (2020)	That study assessed the impact of national cultural dimensions on tax performance African.	The study established that satisfaction affects tax performance whereas proximity to power, self-centeredness and perception negatively affect tax performance	-self-centeredness, proximity to power, perception and satisfaction were utilized as the independent variables.	This current study aimed at ascertaining if tax complexity, tax knowledge and individual taxpayer's characteristics affects tax compliance by individual taxpayers in Kenya. The indicator to be measured under individual taxpayer's characteristics are individual taxpayer's age, income and level of education.
Wadesan go and Mwanda mbira (2018)	Conducted a study on whether tax knowledge affects tax compliance by small medium enterprises in a developing country	That study established that taxpayers tend to possess fundamental knowledge on matters to deal with taxation but lack a deeper insight of contrasting complex taxation matters such as presumptive taxation and taxation of income	-The study tax knowledge as its only independent variable. - The study was conducted in Zimbabwe targeting Zimbabwe taxpayers only.	The current study assessed the impact not only of tax knowledge but also tax complexity and taxpayer's individual characteristics on tax compliance by individual taxpayers in Kenya

<p>Nurkhin et al. (2018)</p>	<p>The study focused on how Tax understanding, tax awareness and tax amnesty does affect tax compliance</p>	<p>It was established that taxpayer understanding and awareness variables that affects tax compliance rather than tax amnesty perception</p>	<p>-Only used the following measurement indicators: Ease of acquiring knowledge of taxation, knowledge and understanding the functions and benefits of tax, Knowledge and understanding in filling tax return, preparing financial reports and paying taxes, Knowledge and understanding about the calculation of tax underpayment, Knowledge of administrative and criminal sanctions, Knowledge and understanding of the implementation of sanctions for tax violations, and Knowledge and understanding of the essence -Carried in Indonesia</p>	<p>-The current study sought to ascertain the relation between tax knowledge and tax compliance by individual taxpayers in Kenya. -The measurement indicators for the study are: ability to compute tax liability, ability to file returns timely and consulting tax experts. -The study was done on Individual income tax of KRA taxpayers.</p>
<p>Saad (2014)</p>	<p>Study sought whether tax knowledge, tax complexity influenced tax compliance in Malaysia</p>	<p>That study found that tax complexity and tax knowledge affects compliance behaviour by taxpayers.</p>	<p>-Saad used tax knowledge and tax complexity as independent variables. -Only Primary Data collection was used which was collected via telephone interview -Conducted in Malaysia</p>	<p>-The current study used tax knowledge, tax complexity and individual taxpayer's characteristics as independent variables. The study further had tax penalties as the moderating variable -The study employed primary data which was gathered via administering questionnaires</p>

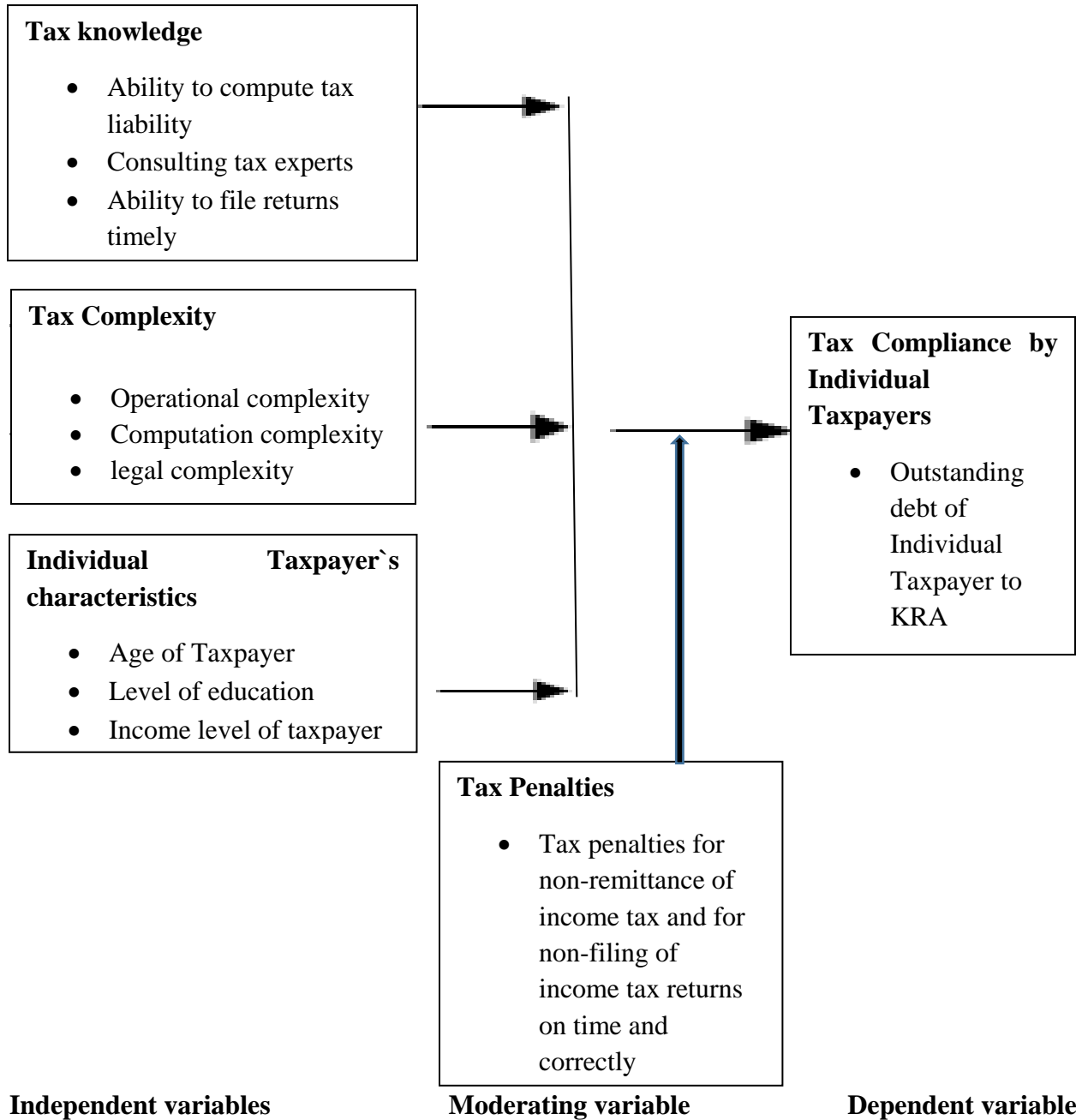
				-The study targeted on individual taxpayers in Kenya
Kirchler et al. (2006)	That study examined on whether there is consistency in between Australian taxpayers and tax officers	The study established that tax knowledge lead to high compliance rates	-Targeted of taxpayer's orientation towards tax authority -The study focused on Australian taxpayers	This study aimed at assessing whether tax knowledge affects tax compliance by individual taxpayers in Kenya
Chau & Leung (2009)	Study reviewed on Fischer tax compliance model	It was established apart from demographic factors, various environmental factors also affect individual taxpayers' knowledge hence tax compliance	-Only Focused on environmental factors affecting individual taxpayers' knowledge	Focus on both demographic factors involving taxpayer's age with addition of taxpayer's level of education and taxpayer's level of income, an environmental factor
Nuridayu (2017)	Studied whether tax penalties impacts tax compliance by the small and Medium Enterprises in Malaysia	It was established that tax penalties have impact on tax compliance behavior	-The indicator of tax penalties used in were: level of sanction, knowledge along with psychological behavior of taxpayers. -Tax penalties was used an independent variable	-The indicator in this study is forms of tax penalties for not paying income tax and non-filing of income tax on time and correctly -Tax penalties was a moderating variable

Source: Researcher (2020)

## **2.5 Conceptual Framework**

The conceptual framework depicts the relation between independent variables, moderating variable and dependent variable. Main independent variables in this research are: Tax knowledge, Tax complexity and Individual taxpayer`s characteristics. The moderating variable in this study is tax penalties. These variables were analyzed whether they affect tax compliance by individual taxpayers in Kenya. This study aimed at establishing whether tax knowledge, tax complexity and individual taxpayer`s characteristics affects tax compliance by individual taxpayers in Kenya. Specifically, the researcher focused on tax knowledge, tax complexity, and individual taxpayer`s characteristics attribute as the aspects of tax compliance by individual taxpayers in Kenya and hence the independent variables in this study.

**Social Economic Attributes**



**Figure 2.1: Conceptual Framework**

**Source: Researcher (2020)**



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter entails an overview of the methodology used in this research. The discussion in this chapter revolves around research design, population sampling, collection of data, data analysis as well as procedures and instruments adopted for collection of data and analysis.

#### **3.2 Research Design**

Cooper and Schindler (2010) stated that a research design is a statement of the salient elements of a study and consists the roadmap for collection, measurement and analysis of data. Saunder (2007) posited that research design can be classified into exploratory, descriptive and explanatory. Descriptive research design allows the researcher to capture the attributes of population hence test hypothesis (Mugenda & Mugenda, 2003; Cooper & Schindler, 2007). Therefore, researcher does not have control over the variables hence not in a position to manipulate thereby preventing biasness. There are two kinds of descriptive research designs which could be used in a research; longitudinal and cross sectional survey designs. Cross sectional descriptive design was adopted in this study.

#### **3.3 Target Population**

According to KRA (2019) PAYE has been a significant tax head over the past decade since it has an average of 27% contribution to total exchequer which is higher compared to other tax heads. PAYE is collected from individual gainful employment. Gains includes: casual gain, salary, payment on leave, sick pay, payment instead of leave, fees, commission, bonus, subsistence,

travelling, entertainment allowance and other allowance received in respect on work duties. According National Treasury (2019) in the FY 2019/20 budget estimates, public wage bill in Kenya accounts for 27.5% of government recurrent expenditure and 23.2% of aggregate government revenues. High government wage bill imply that the government has employed relatively big portion of individual taxpayers in Kenya. In Kenya, public servants are charged with PAYE. Staff from public university are good representation of Individual taxpayers who are charged PAYE in Kenya, they consist of individual taxpayers from all the level of annual income tax brackets. The study targeted staff from public university since they are charged PAYE. The study focused on staff of five Public Universities in Nairobi City County, these include: Cooperative University, Kenyatta University, Multimedia University, Technical University of Kenya and University of Nairobi. According to Commission of University Education (CUE, 2019) the total number of staff among the five public universities is 4806.

**Table 3.1: Target population**

	<b>University</b>	<b>Number of employees</b>
1	Cooperative university	61
2	Kenyatta university	1416
3	Multimedia University	482
4	Technical University of Kenya	910
5	University of Nairobi	1937
	Total	4806

**Source: CUE (2019)**

### 3.4 Sample Design

Cooper (2010) stated that population element refers to a subject with which the measurement is derived from as a unit of study. These study targeted staff of five public universities in Nairobi City County with a total of 4806 staff (CUE, 2019). Stratified random sampling technique was employed for selection of staff who were sampled in this study. This study adopted Krejcie and Morgan (1970) model in determination of sample size.

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

Where:

N= population size

n= sample size

e=level of precision

$$n = 4806 / [1 + 4806(0.05)^2]$$

$$n = 370$$

**Table 3. 2: Distribution of Sample**

	<b>University</b>	<b>Number of employees</b>	<b>Proportion</b>	<b>Sample</b>
1	Cooperative university	61	0.013	5
2	Kenyatta university	1416	0.295	109
3	Multimedia University	482	0.100	37
4	Technical University of Kenya	910	0.189	70
5	University of Nairobi	1937	0.403	149
	Total	4806		370

**Source: Author's computation (2019)**

### **3.5 Data collection Instruments**

Primary data collection tools were utilized in this research. This was done using self-made questionnaires. The design of the structure of research questionnaire was founded on the research hypothesis. It was made up of two parts: the first part the biodata of the respondents and their professional background. The second part consisted of questions relating to the tax knowledge, tax complexity, individual taxpayer's characteristics, tax penalties and tax compliance by individual taxpayer. It is crucial to consider operationalization and measurement of other studies having similar constructs with the research to enhance understanding of the construct. The researcher operationalized and measured the study variables based on knowledge obtained from a literature review of previous related studies.

Table 3.3 constitute a list of the various study variables, their operational definitions as well as their respective measurements.

**Table 3. 3: Operationalization and Measurement of Variables**

<b>Variable</b>	<b>Operationalization</b>	<b>Indicator</b>	<b>Measurement</b>
Tax compliance by Individual taxpayers (Dependent Variable)	This measures the degree of tax compliance by individual taxpayers	Tax liability due to KRA	Tax debt of Individual Taxpayer to KRA
Tax knowledge (Independent Variable)	This assesses taxpayer's knowledge and understanding on regards to Income tax law	Computation of tax liability	Taxpayer ability in computing their tax due
		Consulting tax experts	Taxpayer seeking professional assistance when filing tax returns and remitting their tax liability
		Filing returns timely	Taxpayers ability to file their return timely as per the scheduled deadlines
Tax complexity (Independent Variable)	This measure how detailed it is to carry out tax practices	Operational complexity	Number of requirements to file return
		Computation complexity	Methods used to calculate tax liability
		Legal complexity	Sound knowledge of Income Tax Act
Individual taxpayer's characteristics (Independent Variable)	This assesses the taxpayers' biodata	Age	Taxpayer's age
		Level of education	Taxpayer's education level
		Level of income	Taxpayer's annual income

Tax Penalties (Moderating Variable)	This assesses application of both legal and Administrative sanctions in countering non-tax compliant taxpayers.	Fine imposed on account of violating tax law	Tax penalties imposed on individual taxpayers for not remitting income taxes and for non-filing of income tax returns on time and correctly
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Source: Researcher (2020)

### 3.5.1 Validity of the Questionnaire

Validity is the extent by which an instrument of data collection assesses what it ought to calibrate (Kothari, 2004). Hence it is the degree to which data collecting instrument possess the ideal questions. Winterstein (2008) posited that validity is augmented over time when validations keep occurring on various populations. The researcher did a Pre-test on the research instrument towards establishing its validity.

### 3.5.2 Reliability of the Questionnaire

Reliability of research tool is an estimate of the extent by which a research instrument gives out outcome that do not have discrepancies (Mugenda & Mugenda, 2003). Reliability of research instrument was measured through adoption of Cronbach Alpha score whereby any score from 0.7 and above is accepted, 0.8 and above is considered good whereas Cronbach Alpha score of 0.9 and above is considered as being excellent (George & Mallery, 2003).

### 3.6 Data Collection procedure

The researcher amassed the primary data through administering the questionnaires. The researcher administered the questionnaires to respondents through drop off / pick up method. Riley et al. (2002) and Steele et al. (2001) argued that, in a contrast between drop off / pick up method and

other surveying techniques, drop off / pick up method is time efficient and economical as well as typically results in higher completion rates.

### 3.7 Data analysis

Data collected was analysed through the utilizing both descriptive statistics and multiple regression. The descriptive statistics was utilized to outline level of tax compliance by individual taxpayer, tax knowledge, tax complexity and individual taxpayer`s characteristics. Multiple regression was done to test the relation between tax knowledge, tax complexity and individual taxpayer`s characteristics on tax compliance by individual taxpayer in Kenya. SPSS was used in analyzing the data. The general multiple linear regression model tested in this research was:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon \dots\dots\dots 3.1$$

Where :

Y => Tax compliance by individual taxpayer (Dependent variable)

X<sub>1</sub> => Tax knowledge

X<sub>2</sub> => Tax complexity

X<sub>3</sub> => Individual taxpayer`s characteristics

β<sub>0</sub> = Constant (Y intercept)

(β = 1, 2, 3,) = regression coefficients values

(X<sub>1</sub>, X<sub>2</sub>, X<sub>3</sub>,) = various independent variables

ε = Error term

### 3.7.1 Testing of Moderating Effect of Tax Penalties

Cohen et al. (2003) underscored the importance of a moderator by stating that it is absolute to test moderators since it is crucial in theory testing for social sciences. In testing whether tax penalties moderate the relation between social economic attributes and tax compliance by individual taxpayer, the researcher adopted Aiken & West (1991) regression model. The following model was used.

$$Y = \beta_0 + \beta_1 \text{SECN} + \beta_2 \text{TPEN} \dots\dots\dots 3.2a$$

$$Y = \beta_0 + \beta_1 \text{SECN} + \beta_2 \text{TPEN} + \beta_3 \text{SECN} * \text{TPEN} \dots\dots\dots 3.2b$$

Where:

Y = Tax compliance by individual taxpayer

SECN = Social economic attributes

TPEN = Tax penalties

$\beta_0$  = Constant term.

$B_s$  = Coefficients of the explanatory variables.

The moderation test sought to determine: (a) if the increase in the squared multiple correlation ( $\Delta R^2$ ) is significantly greater than zero, (b) if the coefficient of interaction term is statistically different from zero, and (c) Testing whether the partial correlation between the product of (TPEN X SECN) and Y, when controlling for TPEN and SECN, differs from zero (Aiken & West 1991).



### 3.8 Diagnostic Test

It is important to ensure that Classical Linear Regression Model assumptions is not violated. This is because if the assumptions of the classical linear regression model get breached, hence results to estimates that are not linear unbiased estimator: estimates that are biased, inefficient, and inconsistent. The tests comprise of the normality test, multicollinearity test, heteroskedasticity, autocorrelation, linearity, and adequacy of sampling test.

**Table 3. 4: Summary of the Diagnostics Tests**

Test	Significance	Test used	Conclusion
Normality	Enhances assessment of the distribution shape as well as predicting dependent variables	-Shapiro-Wilk test -Quartile-Quartile Plot (Q-Q plot)	-Where P-value< 0.05, data is normally distributed -Variables scatter should be normally distributed for the fit to be done
Heteroscedasticity	Ascertains whether the variance of variables do varies across the data (tests for the assumption of constant variance)	Levene test	- P-value<0.05, depicts presence of constant variance
Multicollinearity	Ascertains if the correlations among the independent variables are strong	Variance Inflation Factor (VIF)	-VIF for one of the variables is equal or greater than 10 hence multicollinearity exist
Sampling Adequacy	Assesses the acceptable degree of sampling adequacy	Kaiser-Meyer-Olkin (KMO) test. Bartlett's test of sphericity	Test results of 0.5 or higher indicates the adequacy of the data to be utilized in the regression analysis.
Tests of Independence (Autocorrelation)	Determine whether the residuals of the models were not autocorrelated (Assesses the independence of error terms, implicating that observations are independent	Durbin Watson (DW) test	Scores between 1.5 and 2.5 indicate independent observations

### **3.9 Ethical issues**

The researcher obtained permission from NACOSTI before carrying out data collection. The researcher upheld privacy and confidentiality besides that obtained permission from the respective respondents prior to collection of data from them. The researcher kept the data collected as private and confidential and only utilized solely for academic research thus ensuring privacy of the respondents from whom data is gathered from.

**CHAPTER FOUR**  
**RESEARCH FINDINGS AND DISCUSSION**

**4.1 Introduction**

This chapter contain findings derived from primary data utilized in this research. It entails characteristics of the respondents and their views regarding the relation between social economic attributes and tax compliance by individual taxpayers in Kenya. The researcher has used tables that summarizes the aggregate response from the respondents.

**4.2 Response Rate**

The researcher administered 370 questionnaires. Among 370 respondents to whom the questionnaires were administered, only 270 respondents returned fully filled questionnaires which represent a response rate of 72.9%. This response rate was considered suffice. A response rate of above 50 percent is deemed as adequate for analysis as guided by Saunder (2007).

**4.2.1 Reliability Analysis**

A reliability analysis was carried out utilizing Cronbach’s Alpha that tests internal consistency of the research instrument. The findings are contained in Table 4.1.

**Table 4.1: Reliability Analysis**

	<b>Reliability Cronbach's Alpha</b>
Tax knowledge	.781
Tax complexity	.759
Individual taxpayer`s characteristics	.793
Tax penalties	.808
Tax compliance by individual taxpayers	.811

**Source: Study data (2021)**

From the results, performance of individual income tax was most reliable with 0.811, followed by tax penalties with 0.808, then Individual taxpayer characteristics with 0.793, then tax knowledge with 0.781, while tax complexity had 0.759. All constructs surpassed the suggested Cronbach's alpha value that is above 0.7 hence deduced that the study was reliable to capture the constructs (Mugenda & Mugenda, 2003).

#### 4.2.2 Validity Analysis

The researcher used exploratory factor analysis in ascertaining construct validity of the questionnaire. The factors do outline the highest proportion of variance the variables share are expected to represent the fundamental constructs.

**Table 4.2: Component Matrix**

	Component					
	1	2	3	4	5	6
I know how to compute my tax liability	.188	.128	.131	<b>.438</b>	.425	.356
I seek tax consultants to determine my tax liability	<b>.529</b>	.088	.234	.058	.175	.207
I seek tax consultants to file my returns	<b>.448</b>	.045	.143	.174	.247	.290
I am familiar with the dates when to file my income tax returns	<b>.623</b>	.105	.308	.277	.102	.125
I am familiar with procedures and requirement for filing my returns	.246	.095	.391	<b>.455</b>	.212	.257
Method used for Computation of tax liability by KRA is too complex	<b>.564</b>	.197	.259	.389	.020	.153
I am conversant with Income Tax Act CAP 470	.158	.102	<b>.509</b>	.169	.300	.257

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I seek updates regarding to changes in tax law and regulations	.384	<b>.593</b>	.155	.207	.195	.066
I pay taxes on time to avoid penalties	.286	<b>.578</b>	.281	.220	.145	.104
Tax penalties significantly affect individual taxpayers in filing their returns correctly.	.398	.010	.298	.397	.089	.127
I do not file returns because the penalty is low	.233	<b>.461</b>	.195	.126	.450	.005
I do not file returns because the current tax penalty are lenient	<b>.431</b>	.144	.359	.199	.235	.191
Tax knowledge significantly affect individual taxpayer`s promptness in paying taxes in order for the taxpayer to be tax compliant	<b>.414</b>	.020	.367	.374	.094	.236
I have ever been fined for filing returns after specified deadline	.247	<b>.636</b>	.082	.162	.127	.183
Tax penalties significantly affect individual taxpayers in filing their returns correctly.	<b>.578</b>	.058	.278	.052	.218	.318
I do not have outstanding debt with KRA	.059	.184	.518	.166	<b>.585</b>	.074
Individual taxpayer`s characteristics including taxpayer`s age, education level and level of income have a significant effect on tax compliance by individual taxpayers	<b>.526</b>	.311	.226	.070	.200	.159
I have never delayed in paying my tax liability	.351	.088	.160	<b>.415</b>	.100	.038
Numbers of procedures required for tax compliance purpose are too complex that hinder me from being tax compliant	.306	.444	.140	.243	.125	<b>.514</b>

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Tax complexity significantly affect individual taxpayer in complying with tax legislations	.253	.242	.284	.029	.236	<b>.547</b>
Earning higher level of income enables a taxpayer in complying with tax legislation	0.177	0.114	<b>0.576</b>	0.189	0.336	0.288
Older taxpayers are seasoned on issues of taxation hence tax compliant	0.430	<b>0.664</b>	0.174	0.232	0.218	0.074
My level of income is low hence I comply with tax laws and regulation to avoid accumulating tax liability by being imposed fines for not complying	0.320	<b>0.747</b>	0.315	0.246	0.162	0.116
Young taxpayers tend to be dynamic and they seek updates regarding changes in tax laws and regulation hence more tax compliant than old taxpayers	<b>0.646</b>	0.011	0.334	0.445	0.100	0.142
I have higher level of education which enables me to be tax compliant	0.261	<b>0.516</b>	0.218	0.141	0.504	0.006
Low level of education significantly affect tax compliance by individual taxpayer	<b>0.883</b>	0.161	0.402	0.223	0.263	0.214

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**Extraction Method: Principal Component Analysis.**

**a. 6 components extracted.**

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**Source: Study data (2021)**

Each of the 26 parameters were considered and then positioned into one of the 6 factors on basis of the extent of variability, it illustrates the aggregate variability of all factors. According to results of factor analysis, all variables indicators had a high construct validity this is because they did surpass the required threshold of 0.40 as suggested by Kothari (2004).

### 4.3 Demographic Information

The study aimed at collecting background information from participants by examining the gender, their respective age, their highest level of education along with annual income bracket. The results were displayed in the subsequent sections.

#### 4.3.1 Gender of the Respondents

The researcher asked the respondents questions concerning their gender. Their answers were tabulated in Table 4.3.

**Table 4.3: Gender of the Respondents**

	Frequency	Percent
Male	171	63.3
Female	99	36.7
<b>Total</b>	<b>270</b>	<b>100.0</b>

**Source: Study data (2021)**

The findings demonstrated that 63.3% of the respondents were male whereas 36.7% were female. These findings depict that the researcher was not gender biased during collection of data, all the respondents were considered irrespective of their gender.

#### 4.3.2 Age Bracket of the Respondents

The researcher required the respondents to specify the age group to which they belong. The collective responses were as described in Table 4.4.

**Table 4.4: Age Bracket of the Respondents**

	<b>Frequency</b>	<b>Percent</b>
Below 25 Years	24	8.9
25-34 years	42	15.6
35-44 years	140	51.9
45-50 years	35	13.0
Above 50 years	29	10.7
<b>Total</b>	<b>270</b>	<b>100.0</b>

**Source: Study data (2021)**

The results revealed that 51.9% of the respondents were in age group 35-44 years, 15.6% were aged group 25-34 years, 13.0% were aged group 45-50 years, 10.7% were aged above 50 years, and 8.9% were aged below 25 years. This depicts that the study covered all the age group of individual taxpayers.

#### **4.3.3 Respondents' Highest Level of Education**

The researcher required the respondents to specify their respective highest level of education. Their responses were tabulated in Table 4.5.

**Table 4.5: Respondents' Highest Level of Education**

	<b>Frequency</b>	<b>Percent</b>
Secondary Certificate	39	14.4
Diploma level	113	41.9



Bachelor's degree	44	16.3
Master's degree	40	14.8
PhD / Doctorate	34	12.6
<b>Total</b>	<b>270</b>	<b>100.0</b>

**Source: Study data (2021)**

The results indicated that 41.9% of the respondents had reached the diploma level, 16.3% were in possession of bachelor's degree level whereas 14.8% possessed a master's degree, 14.4% had attained the secondary certificate level, while 12.6% had attained a PhD / Doctorate. The results depict a pool of learned respondents with the capacity to comprehend and cascade reliable information regarding the subject under study.

#### **4.3.4 Respondents' Annual Income Tax Bracket**

The respondents were required to specify their respective annual income. The outcome was tabulated in Table 4.6.

**Table 4.6: Respondents' Annual Income Bracket**

	<b>Frequency</b>	<b>Percent</b>
Below KES 236,880	26	9.6
KES 236,881-351,792	30	11.1
KES 351,793-466,704	139	51.5
Above KES 466,704	75	27.8
<b>Total</b>	<b>270</b>	<b>100.0</b>

**Source: Study data (2021)**

The results revealed that 11.1% of the respondents earned an annual income between KES 236,881-351,792, 27.8% earned above KES 466,704, 9.6% earned below KES 236,880 while 51.5% earned between KES 351,793-466,704, The results implicating majority of the respondents earned averagely. This depicts that the study covered individual taxpayers from all the annual income tax brackets.

#### **4.4 Descriptive Statistical Analysis**

This part displays the findings for the following variables: Tax Knowledge, Tax Complexity, Individual Taxpayers Characteristics, Tax penalties and Tax compliance by individual taxpayers.

##### **4.4.1 Tax Knowledge**

The research aimed at ascertaining whether tax knowledge affects tax compliance by individual taxpayers in Kenya. The respondents were required to specify their extent of concurrence on regards to statements on tax knowledge. The findings were displayed on Table 4.7.

**Table 4.7: Level of Agreement on the Effect of Tax Knowledge on Tax Compliance by Individual Taxpayers in Kenya**

	<b>Mean</b>	<b>Std. Dev.</b>
I am know how to compute my tax liability	2.167	0.712
I seek tax consultants to determine my tax liability	3.678	0.985
I seek tax consultants to file my returns	4.678	0.946
I am familiar with the dates when to file my income tax returns	4.011	0.918

**Source: Study data (2021)**

Table 4.7 describes that respondents strongly concurred with the statement that they sought tax consultants to file their returns as described by a mean of 4.678. The respondents concurred that they were familiar with the dates when to file their income tax returns as portrayed by a mean of 4.011; they sought tax consultants to determine their tax liability as described by a mean of 3.678. Further, on regards to respondents possessing the ability to compute their tax liability, the respondents disagreed as depicted by a mean of 2.167. This is in line with Mukasa (2011) who studied on whether tax knowledge, perception on fairness in taxation do affect tax compliance in Uganda. The study ascertained that tax knowledge had a positive significant effect on tax compliance. Measurement indicators of tax knowledge for that study were: abstract knowledge and concrete knowledge.

#### **4.4.2 Tax Complexity**

The study focused on determining if tax complexity impact tax compliance by individual taxpayers in Kenya. The respondents were required to specify their degree to which they agree with statements about tax complexity. Table 4.8 describes the findings.

**Table 4.8: Level of Agreement on the Effect of Tax Complexity on Tax Compliance by Individual Taxpayers in Kenya**

	<b>Mean</b>	<b>Std. Dev.</b>
I am familiar with procedures and requirement for filing my returns	4.622	0.516
Method used for Computation of tax liability by KRA is too complex	3.811	0.911
I am conversant with Income Tax Act CAP 470	1.126	0.544

I seek updates regarding to changes in tax law and regulations	1.548	0.655
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**Source: Study data (2021)**

As per the results, the respondents strongly agreed that they were familiar with procedures and requirement for filing their returns as portrayed with an average of 4.622. The respondents agreed that the method used for computation of tax liability by KRA was too complex as illustrated with an average of 3.811. The respondents moreover disagreed that they sought updates regarding to changes in tax law and regulations as portrayed by an average of 1.548. They strongly disagreed that they were conversant with Income Tax Act CAP 470 as illustrated by an average of 1.126. The study conforms to Saad (2014) who studied whether tax knowledge as well as tax complexity affect tax compliance. Data was gathered via telephone interviews and the study was done in Malaysia. It was established that if a tax system that is too complex to taxpayers tend to attract more cost of compliance to the taxpayers. Tax system that has tedious procedures is perceived to be inherently complex. Taxpayers tend to develop negative orientation towards a tax system that they find complex to be too complex to them hence being non-compliant to tax legislation.

**4.4.3 Individual Taxpayer`s Characteristics**

The study aimed at determining if of individual taxpayer`s characteristics affects tax compliance by individual taxpayers in Kenya. The respondents were required to specify their degree to which they agree with statements about individual taxpayer`s characteristics. Table 4.9 describes the findings.

**Table 4.9: Level of Agreement on the Effect of Individual Taxpayer’s Characteristics on Tax Compliance by Individual Taxpayers in Kenya**

<b>Statements</b>	<b>Mean</b>	<b>Std. Dev.</b>
Earning higher level of income enables a taxpayer in complying with tax legislation	3.449	0.905
Older taxpayers are seasoned on issues of taxation hence tax compliant	4.156	0.813
My level of income is low hence I comply with tax laws and regulation to avoid accumulating tax liability by being imposed fines for not complying	4.086	0.969
Young taxpayers tend to be dynamic and they seek updates regarding changes in tax laws and regulation hence more tax compliant than old taxpayers	3.532	0.837
I have higher level of education which enables me to be tax compliant	3.951	0.670
Low level of education significantly affect tax compliance by individual taxpayer	4.189	0.935

**Source: Study data (2021)**

Table 4.9 revealed that the respondents were in agreement that low level of education significantly affects tax compliance by individual taxpayer as described by a mean score of 4.189, older taxpayers are seasoned on issues of taxation hence tax compliant as portrayed by a mean of 4.156, people with low level of income comply with tax laws and regulation to avoid accumulating tax

liability by being imposed fines for not complying as portrayed by a mean score of 4.086, people with higher level of education which enables them to be tax compliant as portrayed by a mean score of 3.951 and young taxpayers tend to be dynamic and they seek updates regarding changes in tax laws and regulation hence more tax compliant than old taxpayers as portrayed with a mean of 3.532. However, they were indifferent on the fact that earning higher level of income enables a taxpayer to comply with tax law as portrayed described by an average of 3.449. These findings resemble those of Palil (2010); Ross and McGee (2012) who suggested that age positively affects tax among taxpayers. Both researches did establish that older taxpayers possessed experience regarding tax administration hence this enabled them to comprehend the taxation matters more easily than young taxpayers. Further, Palil (2010) argued that taxpayers with high level of education tend to be more enlightened with regards to their responsibility as well as the likely penalties they are imposed for contravening tax laws.

#### **4.4.4 Tax Penalties**

The research aimed at ascertaining moderating effect of tax penalties on relation between social economic attributes and tax compliance by individual taxpayers in Kenya. The respondents were queried to specify their degree of concurrence with regard to statements about tax penalties. The outcome was recorded on Table 4.10.

**Table 4.10: Level of Agreement on the Effect of Tax Penalties on Tax Compliance by Individual Taxpayers in Kenya**

	<b>Mean</b>	<b>Std. Dev.</b>
I pay taxes on time to avoid penalties	4.800	0.788

Tax penalties significantly affect individual taxpayers in filing their returns correctly.	3.900	0.959
I do not file returns because the penalty is low	1.559	0.635
I do not file returns because the current tax penalty are lenient	1.437	0.976

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**Source: Study data (2021)**

Table 4.9 describes that the respondents strongly concurred that they paid taxes on time to avoid penalties as portrayed by a mean of 4.800. The respondents concurred that tax penalties significantly affected individual taxpayers in filing their returns correctly as described by an average of 3.900. Further, the respondents disagreed that they did not file returns because the penalty was low as portrayed by a mean of 1.559. Also, they strongly disagreed that they did not file returns because the current tax penalty was lenient as portrayed by a mean score of 1.437. These findings echoed to study finding by Nuridayu et al. (2017), studied on whether tax penalties affected tax compliance in Malaysia. It was established that tax penalties significantly influence taxpayer's compliance behavior. The key indicators used to measure of tax penalties in the study were: level of punishment, knowledge as well as taxpayer's attitude. All elements of tax penalties in this study affected tax compliance by taxpayers.

#### **4.4.5 Tax Compliance by Individual Taxpayers**

The respondents were queried to specify their degree to which they agree with statements about tax compliance by individual taxpayers. The outcome was portrayed on Table 4.11.

**Table 4.11: Level of Agreement with Statements on tax compliance by individual taxpayers**

	<b>Mean</b>	<b>Std. Dev.</b>
Tax knowledge significantly affect individual taxpayer`s promptness in paying taxes in order for the taxpayer to be tax compliant	4.400	0.742
I have ever been fined for filing returns after specified deadline	2.004	0.900
Tax penalties significantly affect individual taxpayers in filing their returns correctly.	3.937	0.914
I do not have outstanding debt with KRA	3.707	0.945
Individual taxpayer`s characteristics including taxpayer`s age, level of education and level of income have a significant effect on tax compliance by individual taxpayers	3.852	0.912
I have never delayed in paying my tax liability	1.407	0.997
Numbers of procedures required for tax compliance purpose are too complex that hinder me from being tax compliant	4.341	0.717
Tax complexity significantly affect individual taxpayer in complying with tax legislations	4.759	0.750

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**Source: Study data (2021)**

The findings portrayed that the respondents strongly agreed that tax complexity significantly affects individual taxpayer in complying with tax legislations as described by a mean of 4.759.

The respondents concurred that tax knowledge significantly affected individual taxpayer`s



promptness in paying taxes in order for the taxpayer to be tax compliant as shown by a mean of 4.400; numbers of procedures required for tax compliance purpose were too complex that hinder them from being tax compliant as portrayed by a mean of 4.341; tax penalties significantly affected individual taxpayers in filing their returns correctly as portrayed by a mean of 3.937; individual taxpayer`s characteristics significantly affected tax compliance by individual taxpayers as shown by a mean of 3.852; they did not have outstanding debt with KRA as described by an average score of 3.707. The respondents further disagreed that they had ever been fined for filing returns after specified deadline as shown by a mean of 2.004. They also strongly disagreed that they had never delayed in paying their tax liability as shown by a mean of 1.407.

#### **4.5 Inferential Statistical Analysis**

In this section both hypothesis testing and diagnostic tests were done. Hypothesis testing was done to either reject or fail to reject the respective null hypotheses. Diagnostic tests were carried out first to ensure that Classical linear regression model is not contravened.

##### **4.5.1 Diagnostic test**

In this part diagnostic tests for the regression assumptions are described. The tests are: normality, heteroscedasticity, autocorrelation, multicollinearity as well as sampling adequacy.

###### **4.5.1.1 Normality Test**

Normality test was done using Kolmogorov Smirnov test and Shapiro Wilk test in the study.

Testing for normality outcome was portrayed in Table 4.12.

**Table 4.12: Checking for Normality**

	Kolmogorov-Smirnova			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	Df	Sig.
Tax knowledge	0.183	269	0.021	0.907	269	0.610
Tax complexity	0.171	269	0.016	0.902	269	0.530
Individual taxpayer characteristics	0.169	269	0.027	0.862	269	0.087
Tax penalties	0.172	269	0.009	0.812	269	0.080
Performance of individual income tax	0.139	269	0.017	0.872	269	0.439

**Source: Study data (2021)**

Under this tests the null hypothesis was that the residuals do not significantly differ with the normal distribution. The Table 4.12 described that after using both Kolmogorov Smirnov test and Shapiro-Wilk tests as tests for normality, the p-value for both tests was more than 0.05, hence the study failed to reject  $H_0$  and hence concluded that data for both the dependent and the independent variables were distributed normally and can be used to estimate dependent variables. Park (2015) argued that in Shapiro-Wilk Test if the Significant value is greater than 0.05, hence data is normal whereas when the Sig. value is below 0.05, hence data does significantly deviates away from a normal distribution.

#### **4.5.1.2 Heteroscedasticity**

This test checks whether the variance of the residuals varies across the data (test the assumption that residual have equal variance hence homoscedastic) where if  $P\text{-value} < 0.05$ . Levene test was adopted in assessment of heteroscedasticity. The test outcome was portrayed in Table 4.13.

**Table 4. 13:Levene Test Results**

	<b>Levene Statistic</b>	<b>Df1</b>	<b>Df2</b>	<b>Sig.</b>
Tax knowledge	0.183	1	269	0.021
Tax complexity	2.171	1	269	0.014
Individual taxpayer’s characteristics	2.971	1	269	0.009
Tax penalties	3.172	1	269	0.031
Tax compliance by Individual taxpayers	2.331	1	269	0.034

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**Source: Study data (2021)**

From the findings, the p-value for all the variables (tax knowledge, tax complexity, tax penalties, individual taxpayer characteristics and Tax compliance by Individual taxpayers) were less than 0.05 hence the researcher did fail to reject the null hypotheses for equal variances. Thus, it was ascertained that the data set had no heteroscedasticity and is hence appropriate for modeling of regression equation

#### **4.5.1.3 Autocorrelation Test**

In a context whereby errors are correlated with one another, it is deduced they are ‘serially correlated’. Therefore, the assumption needs to get tested. Durbin-Watson test was first done as depicted by the regression output of the model. The null hypothesis held that no autocorrelation exists. The Autocorrelation Test outcome were described in Table 4.14.

**Table 4.14: Autocorrelation Test**

<b>Model</b>	<b>Durbin-Watson</b>
1	2.000 <sup>a</sup>

**Source: Study data (2021)**

Bhattacharjee (2012) asserted that the Durbin Watson statistic has a scale of value 0 to value 4. Any value nearer to 2 points out that there exists no autocorrelation in the sample. Values flipping towards 0 shows existence of positive autocorrelation whereas values leaning towards 4 indicates negative autocorrelation. Outcome of Durbin-Watson value for the model was 2.000. Thus, this study failed to reject null hypotheses hence there was no autocorrelation problem.

#### **4.5.1.4 Test for Multicollinearity**

To ascertain whether multicollinearity levels are adverse hence posing challenge during data analysis, collinearity diagnostics was done towards generating the Variance Inflation Factor (VIF) value and tolerance levels. Multicollinearity does occur whereby independent variables are not independent with each other. Collinearity (referred to as multicollinearity) is the assumption that explanatory variables are uncorrelated (Keith, 2006). This study employed Collinearity Statistics to ascertain whether the independent variables are substantial correlation. The outcome of test for multicollinearity was described in Table 4.15.

**Table 4.15: Collinearity Statistics**

	<b>Collinearity Statistics</b>	
	<b>Tolerance</b>	<b>VIF</b>
Tax knowledge	0.927	1.079
Tax complexity	0.466	2.146
Individual taxpayer characteristics	0.919	1.106
Tax penalties	0.603	1.658

**Source: Study data (2021)**

Results in Table 4.15 show that, from the coefficients output, tax knowledge had a VIF value of 1.079, tax complexity had a VIF value of 2.146, tax penalties had a VIF value of 1.658 whereas individual taxpayer characteristics had a VIF value of 1.106. VIF values of all variables were below 10 as well as a tolerance greater than 0.1 implicating existence of no Multicollinearity symptoms as argued by Bryman (2012).

#### **4.5.1.5 Sampling Adequacy**

This test was carried out to assess the acceptable degree of sampling adequacy. Both Bartlett's test of sphericity and Kaiser-Meyer-Olkin (KMO) test were utilized in analysing whether samples are from populations with constant variances. The Test finding of 0.5 or higher depicts adequacy data for regression analysis. Test findings are as described in Table 4.16.

**Table 4.16: Kaiser-Meyer-Olkin (KMO) and Bartlett's Test**

<b>Factors</b>	<b>KMO Test</b>	<b>Bartlett's Test of Sphericity</b>			<b>Determinant</b>
		<b>Approx. Chi-Square</b>	<b>Df</b>	<b>Sig.</b>	
Tax knowledge	0.802	510.767	269	0.001	0.034
Tax complexity	0.759	382.052	269	0.000	0.186

Individual taxpayer`s characteristics	0.796	423.153	269	0.004	0.019
Tax penalties	0.825	622.734	269	0.002	0.006
Tax compliance by individual taxpayers	0.781	656.712	269	0.006	0.236

**Source: Study data (2021)**

Table 4.16 describes that Bartlett's test significance levels were less than 0.05 ( $p < 0.1$ ) which depicts an acceptable degree of sampling adequacy. It was deduced that KMO statistics for all the variables were greater than 0.5 (tax knowledge (0.802), tax complexity (0.759), individual taxpayer characteristics (0.796), tax penalties (0.825), and performance of individual income tax (0.781). This indicate that the data was adequate for regression analysis.

#### **4.5.2 Hypotheses Testing**

This section does display the outcome of hypothesis testing as were presented in chapter two. Multiple regression analysis was done in ascertaining the relation between tax knowledge, tax complexity and individual taxpayer characteristics against the dependent variable tax compliance by individual taxpayers in Kenya. After running the selected data through SPSS, a statistical model was generated. The model generated is what is popularly called a multiple regression model.

This was  $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \epsilon$

$Y$  = Tax compliance by individual taxpayers in Kenya

$\beta_0$  = Constant Term

$\beta_1, \beta_2$  and  $\beta_3$ = Beta coefficients

$X_1$ = Tax knowledge

$X_2$  = Tax complexity

$X_3$  =Individual taxpayer`s characteristics

$\varepsilon$  = Error term

The following null hypothesis were tested:

**H<sub>01</sub>** Tax knowledge has no significant effect on tax compliance by individual taxpayers in Kenya.

**H<sub>02</sub>** Tax complexity has no significant effect on tax compliance by individual taxpayers in Kenya.

**H<sub>03</sub>** Individual taxpayer's characteristics have no significant effect on tax compliance by individual taxpayers in Kenya.

**Table 4.17: Model Summary**

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	0.884	0.782	0.780	0.592

**Source: Study data (2021)**

- a. Predictors: (Constant), Tax knowledge, Tax complexity, Individual taxpayer characteristics

Table 4.17 is a model fit describing if the model equation is suitable to fit the data. The adjusted  $R^2$  was utilized to assess the estimating power of the model which was ascertained to be 0.780 implicating that 78.0% of tax compliance by individual taxpayers in Kenya is described by tax knowledge, tax complexity and individual taxpayer characteristics.

**Table 4.18: ANOVA<sup>a</sup> Results**

<b>Model</b>	<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	335.44	2	167.720	477.524	6.50E-89
Residual	93.778	267	0.351		
<b>Total</b>	<b>429.218</b>	<b>269</b>			

**Source: Study data (2021)**

- a. Dependent Variable: Tax compliance by individual taxpayers in Kenya
- b. Predictors: (Constant), Tax knowledge, Tax complexity, Individual taxpayer characteristics

The probability value of 6.50E-89 shows that the relation of regression was substantial in determining the extent tax knowledge, tax complexity and individual taxpayer characteristics affect tax compliance by individual taxpayers in Kenya. The F measured at 5 percent level of significance was 477.524. Since F is more than the F critical (value = 3.0295), this depicts that the model was significant.

**Table 4.19: Regression Coefficients**

<b>Model</b>	<b>Unstandardized</b>		<b>Standardized</b>	<b>T</b>	<b>Sig.</b>
	<b>Coefficients</b>		<b>Coefficients</b>		
	<b>B</b>	<b>Std. Error</b>	<b>Beta</b>		
(Constant)	11.91	4.398		2.708	0.007
Tax knowledge	0.895	0.300	0.876	2.983	0.003
Tax complexity	0.888	0.278	0.867	3.194	0.002
Individual taxpayer`s characteristics	0.742	0.286	0.691	2.594	0.013

**Source: Study data (2021)**



a. Dependent Variable: Tax compliance by individual taxpayers in Kenya

$$Y = 11.91 + 0.895X_1 + 0.888X_2 + 0.742X_3 + \varepsilon$$

From the findings, if all independent variables were held constant at zero, then the tax compliance by individual taxpayers in Kenya will be 11.91.

**H<sub>01</sub> Tax knowledge has no significant effect on tax compliance by individual taxpayers in Kenya.**

The first objective of this study aimed at ascertaining whether tax knowledge affects tax compliance by individual taxpayers in Kenya. From the findings, the coefficient for tax knowledge is 0.895 which is significant since  $p=0.003$  is less than 0.05, meaning that a one delta in tax knowledge leads to 0.895 change in tax compliance by individual taxpayers in Kenya. Further, the null hypothesis that states that tax knowledge has no significant effect on and tax compliance by individual taxpayers in Kenya, was rejected.

The findings were in line with Mukasa (2011) carried a study on tax knowledge, perception of fairness in taxation and tax compliance in Uganda. That study suggested that tax knowledge was positively related with tax compliance as well as perception of fairness in taxation was positively related with tax compliance.

**H<sub>02</sub> Tax complexity has no significant effect on tax compliance by individual taxpayers in Kenya.**

The second objective of this study aimed at ascertaining whether tax complexity affects tax compliance by individual taxpayers in Kenya. The study further found that a unit change in tax complexity would lead to a 0.888 unit change in tax compliance by individual taxpayers in Kenya.

This variable was significant since  $p\text{-value}=0.002<0.05$ . The null hypothesis that states that tax complexity has no significant effect on and tax compliance by individual taxpayers in Kenya, was therefore rejected.

These findings are consistent with Saad (2014), established that tax complexity is a contributing factor to taxpayers not being compliant. It was established that if a tax system is complex taxpayers tend to incur more compliance costs hence influence compliance behavior of the taxpayers.

**H<sub>03</sub> Individual taxpayer's characteristics have no significant effect on tax compliance by individual taxpayers in Kenya.**

The third objective of this study aimed at ascertaining whether individual taxpayer's characteristic affects tax compliance by individual taxpayers in Kenya. The study further revealed that a unit change in individual taxpayer characteristics would lead to a 0.742 change in tax compliance by individual taxpayers in Kenya. The variable was significant since  $p\text{-value}=0.013<0.05$ . The null hypothesis that states that individual taxpayer characteristics have no significant effect on and tax compliance by individual taxpayers in Kenya, was therefore rejected

These findings are congruent with those of Palil (2010); Ross and McGee (2012) who suggested that taxpayer's age positively affects tax compliance among taxpayers. Both researches did establish that older taxpayers possessed experience regarding tax administration hence this enabled them to comprehend the taxation matters more easily than young taxpayers. Further, Palil (2010) argued that taxpayers with high level of education have a tendency of being more enlightened of their tax obligations as well as the likely sanctions they are imposed for contravening tax laws.

Generally, tax knowledge had the greatest effect on tax compliance by individual taxpayers in Kenya followed by individual taxpayer's characteristics while tax complexity had the least effect on tax compliance by individual taxpayers in Kenya. The three variables were significant at 0.05.

#### **4.5.3 Test of Hypothesis on Moderating effect of Tax penalties**

The study established the null that tax penalties does not moderate the relationship between social economic attributes and tax compliance by individual taxpayers in Kenya. The moderating effect in a regression model depicts the effect of an independent variable on the dependent variable as a function of the third variable. The focus was to assessing and test the moderating effect of tax penalties on the relation between social economic attributes and tax compliance by individual taxpayers in Kenya. The model on the moderating effect was:

$$Y = \beta_0 + \beta_1 X_1 * X_4 + \beta_2 X_2 * X_4 + \beta_3 X_3 * X_4 + \varepsilon \text{ where:}$$

Y= Tax compliance by individual taxpayers in Kenya

$\beta_0$ =constant

X<sub>1</sub>= Tax knowledge

X<sub>2</sub>= Tax complexity

X<sub>3</sub> =Individual taxpayer's characteristics

X<sub>4</sub>= Tax penalties

$\varepsilon$ =Error Term

Stepwise regression technique containing two models was adopted for testing moderating effect of tax penalties on the relations between social economic attributes and tax compliance by individual taxpayers in Kenya.

**Step one: Effect of social economic attributes on tax compliance by individual taxpayers in Kenya.**

In the first model, the effect of the social economic attributes (tax knowledge, tax complexity and Individual taxpayer's characteristics) on tax compliance by individual taxpayers in Kenya was assessed with the subsequent adopted equation:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

where:

Y= Tax compliance by individual taxpayers in Kenya

$\beta_0$ =constant

X<sub>1</sub>= Tax knowledge

X<sub>2</sub>= Tax complexity

X<sub>3</sub> =Individual taxpayer's characteristics

$\varepsilon$ =Error Term

**Step Two: Effect of Tax penalties on the relationship between social economic attributes and tax compliance by individual taxpayers in Kenya.**

In the second model, Tax penalties was brought in to the model with the following adopted equation:

$$Y = \beta_0 + \beta_1 X_1 * X_4 + \beta_2 X_2 * X_4 + \beta_3 X_3 * X_4 + \varepsilon$$

Y= Tax compliance by individual taxpayers in Kenya

$\beta_0$ =constant

X<sub>1</sub>= Tax knowledge

X<sub>2</sub>= Tax complexity

X<sub>3</sub> =Individual taxpayer's characteristics

X<sub>4</sub>= Tax penalties

ε=Error Term

### Test Results for the Two Models

The outcome of the regression models was as described in Table 4.20 and 4.21. Table 4.20 portrayed the model summary and change in R<sup>2</sup>.

**Table 4.20: Regression Results for Moderation**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.888 <sup>a</sup>	.788	.783	1.512	.788	159.960	2	267	.000
2	.912 <sup>b</sup>	.832	.827	1.500	.044	8.896	1	266	.000

**Source: Study data (2021)**

- a. Predictors: (Constant), Tax knowledge, Tax complexity, Individual taxpayer's characteristics
- b. Predictors: (Constant), Tax knowledge, Tax complexity, Individual taxpayer's characteristics, Tax penalties

Table 4.20 describes how model 1 fits the data coefficient of determination was 0.783 with a sig. F change  $p < 0.05$  of 0.044. Based on the model, 78.3% of tax compliance by individual taxpayers in Kenya was recorded for by social economic attributes whereas the remaining 21.7% of tax compliance by individual taxpayers in Kenya was as a result of other factors outside this particular study.

The change statistics in the model as depicted in Table 4.20 describes an increment in R<sup>2</sup> by 4.4% from 78.8% to 83.2%. The increment of 4.4% was brought about by the moderating variable being brought in the second model which is significant since  $p < 0.05$ . This implicates that tax penalties

moderate the relation between social economic attributes and tax compliance by individual taxpayers in Kenya.

The coefficient for the moderating effect of tax penalties on the relation between social economic attributes and tax compliance by individual taxpayers in Kenya was described in Table 4.21.

**Table 4.21: Regression Coefficients<sup>a</sup> to Test for Moderation**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	25.792	10.843		2.379	0.019
	Tax knowledge	0.895	0.300	0.876	2.983	0.003
	Tax complexity	0.888	0.278	0.867	3.194	0.002
	Individual taxpayer characteristics	0.742	0.286	0.691	2.594	0.013
2	(Constant)	27.917	10.9		2.561	0.011
	TK*TCIT	0.904	0.324	0.879	2.790	0.006
	TCX*TCIT	0.892	0.231	0.875	3.861	0.000
	ITC*TCIT	0.813	0.291	0.703	2.965	0.009

**Source: Study data (2021)**

a. Dependent Variable: Tax compliance by individual taxpayers in Kenya

Where: TK =Tax knowledge

TCX =Tax complexity

ITC =Individual taxpayer's characteristics

TCIT= Tax compliance by individual taxpayers in Kenya

**H<sub>04</sub> Tax penalties have no significant moderating effect on relationship between social economic attributes and tax compliance by individual taxpayers in Kenya.**

The Fourth objective of this research aimed at ascertaining whether tax penalties moderates the relation between social economic attributes and tax compliance by individual taxpayers in Kenya.

The findings show that tax penalties moderates significantly the relation between social economic attributes and tax compliance by individual taxpayers in Kenya. This is described by increment in value of the regression coefficients when moderating variable was brought into the model. Therefore, hypothesis that tax penalties does not moderate the relationship between social economic attributes and tax compliance by individual taxpayers in Kenya was rejected and concluded that tax penalties moderates the relation between social economic attributes and tax compliance by individual taxpayers in Kenya.

These findings are congruent with that of Nuridayu et.al (2017), studied on whether tax penalties impact tax compliance in Malaysia. That study established that tax penalties significantly influenced tax by compliance taxpayer's in Malaysia. The findings are also congruent with that of Jatmiko (2006) which established that tax penalties inhibits taxpayers from contravening tax laws and regulations.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

The chapter entails summary, conclusion and recommendations on the relationship between social economic attributes and tax compliance by individual taxpayers in Kenya. The recommendations and conclusions are aimed at addressing the objectives of this study.

#### **5.2 Summary of Findings**

These part describes the summary of the findings of this study. It consists of summary of findings for the four objectives of this study.

##### **5.2.1 Tax Knowledge**

This research targeted at assessing whether tax knowledge affects tax compliance by individual taxpayers in Kenya. This study found that the taxpayers sought tax consultants to file their returns. The study also found that the taxpayers were familiar with the dates when to file their income tax returns, and they sought tax consultants to determine their tax liability. Further, the research established that the taxpayers knew not about computing their respective tax liability. The study also found that tax knowledge had an  $r=0.895$  and was significant by having a  $p\text{-value}=0.003$  is less than 0.05.

##### **5.2.2 Tax Complexity**

This study sought to ascertain whether tax complexity affects tax compliance by individual taxpayers in Kenya. This research found that the taxpayers were familiar with procedures and requirement for filing their returns. The study also found that the method used for computation of tax liability by KRA was too complex. The study moreover found that the taxpayers did not sought



updates regarding to changes in tax law and regulations and were not conversant with Income Tax Act CAP 470. Tax complexity had an  $r=0.888$  and was significant by having a  $p\text{-value}=0.002<0.05$ .

### **5.2.3 Individual Taxpayer`s Characteristics**

This study sought at assessing if individual taxpayer characteristics does affect tax compliance by individual taxpayers in Kenya. The study ascertained that low level of education significantly impacts tax compliance by individual taxpayer. Further, this research found that older individual taxpayers tend to be seasoned on issues of taxation hence tax compliant. Moreover, the study found that individual taxpayers with low level of income comply with tax laws and regulation to avoid accumulating tax liability by being imposed fines for not complying. Individual taxpayers possessing high level of education have a tendency of being more compliant to tax laws than those with low level of education. Young individual taxpayers tend to be dynamic and they seek updates regarding changes in tax laws and regulation hence more tax compliant than old taxpayers. The study further found that the individual taxpayer characteristics had an  $r=0.742$  and was significant by having a  $p\text{-value}=0.013<0.05$ .

### **5.2.4 Tax Penalties**

This research aimed at ascertaining whether tax penalties do moderate the relation between social economic attributes and tax compliance by individual taxpayers in Kenya. The research found that the taxpayers paid taxes on time to avoid penalties. The study also found that tax penalties significantly affected individual taxpayers in filing their returns correctly. Further, the study found that the taxpayers filed returns because the penalty was low as shown by a mean and because the current tax penalty was lenient. This research ascertained that tax penalties moderates significantly

the relationship between social economic attributes and tax compliance by individual taxpayers in Kenya. This was observed when the moderating variable was introduced to the model there was increase in value of the regression coefficients.

Generally, the study aimed at ascertaining whether tax knowledge, tax complexity, individual taxpayer's characteristics affect tax compliance by individual taxpayers in Kenya. This study found that tax complexity significantly affected individual taxpayer in complying with tax legislations. numbers of procedures required for tax compliance purpose were too complex that hinder them from being tax compliant The study also established that tax knowledge significantly affected tax compliance by individual taxpayers. Individual taxpayer`s promptness in remittance of their respective tax liability and filing correct returns depends on taxpayer's knowledge in order for the taxpayer to be tax compliant. Individual taxpayer characteristics influenced tax compliance by individual taxpayers in Kenya. Individual taxpayers possessing high level of education do have a tendency of being more tax compliant in comparison with those possessing low level of education, whereas older individual taxpayers have a tendency of being more seasoned in tax matters hence tax compliant. Further, low income earning individual taxpayers have a tendency of being more tax compliant to avoid accumulating tax liability as result of penalties imposed for non-compliance to tax laws. Tax penalties substantially affected individual taxpayers in filing their returns correctly; individual taxpayer`s characteristics had a significantly affected compliance with tax legislation; and that majority of taxpayers did not have outstanding debt with KRA.

### **5.3 Conclusions**

The study deduced that tax knowledge has a significance influence on tax compliance by individual taxpayers in Kenya. The study further concluded that lack of suffice tax knowledge

attracts non-compliance by individual taxpayers, either willfully or unknowingly. Moreover, the individual taxpayers may unintentionally remit incorrect taxes and file incorrect tax return due to low level of tax law knowledge.

This research deduced that tax complexity positively and significantly affects tax compliance by individual taxpayers in Kenya. The study further deduced that tax complexity arises due to the subtle nature of tax law. The study also concluded that tax complexity does possess a variety of forms such as computational complexity, legal complexity and operation complexity.

The study concluded that individual taxpayer characteristics significantly affects the tax compliance by individual taxpayers in Kenya. This study concluded that each taxpayer is entitled to rights and obligations to comply with tax law despite their individual characteristics. Moreover, Individual taxpayers possessing high level of education do have the tendency of being more tax compliant than those with low level of education. Young individual taxpayers tend to be dynamic and they seek updates regarding changes in tax laws and regulation hence more tax compliant than old taxpayers.

The study concluded that tax penalties significantly moderated the relation between social economic attributes and tax compliance by individual taxpayers in Kenya. The study deduced that tax penalties can be used as a catalyst to influence tax compliance by individual taxpayers. Taxpayers have got the tendency to comply with tax legislations in the event they will be imposed tax penalties for contravention of any tax laws and regulations. Tax penalties can be used as deterrence and motivation tool that influences taxpayers' decision hence play a crucial role in enhancing tax compliance.

#### **5.4 Contribution to body of knowledge**

This section entails contribution of the research findings to: theory building, practice for improvement and policy making. These research findings have variety of contribution to existing body of knowledge with in relation to tax knowledge, tax complexity and individual taxpayer`s characteristics on and tax compliance by individual taxpayers in Kenya. The researcher enriched the conceptual framework from findings of subsequent research hence creating a link with this study. Therefore, research findings might be utilized by other scholars, academicians and research as a point of reference. This research was anchored on the three theories including: Social learning theory, Economic Deterrence theory as well as the Theory of planned behavior.

The study did contribute to the applicability of social learning theory by describing how tax penalties of tax penalties do moderate the correlation between social economic attributes and tax compliance by individual taxpayers. The study expounded on how tax penalties influences taxpayers with regard to be tax compliant. Individual taxpayers have a tendency of complying with tax law to circumvent being sanctioned by the government. Tax penalties plays a key role in reinforcement of tax compliance by individual taxpayers.

This research contributed to the applicability of theory of planned behavior by describing how individual taxpayer`s characteristics affects tax compliance by individual taxpayers. This study`s findings depicted taxpayer`s knowledge on tax legislation enhances the taxpayer in complying with the tax legislation. The study expounded on how taxpayer`s characteristics such as taxpayer`s level of education, level of income and age of the taxpayer do influence taxpayers with regard to be tax compliant.

The adopted the economic deterrence theory by describing the role of tax penalties, to moderate the link between social economic attributes and tax compliance by individual taxpayers. The study expounded on how tax penalties influences taxpayers with regard to be tax compliant. Individual taxpayers tend to avert accumulating tax penalties by being tax compliant.

The study will give a deeper insight to budget officers in charge of formulating Budget Review Outlook Plan (BROP) in the National Treasury with regards to influence of tax knowledge, tax complexity and individual taxpayer`s characteristics on and tax compliance by individual taxpayers in Kenya. This study sought to enlighten taxpayers on need for them to possess a sound knowledge of tax laws and tax legislation. These study findings give a deeper insight to the tax consultants on how they should support taxpayers who are not seasoned in taxation issues. The study findings on tax knowledge, tax complexity and individual taxpayer`s characteristics and tax compliance by individual taxpayers in Kenya, might disseminate crucial information to donors on regards to shortfalls in revenue targets and causes of fiscal pressures in Kenya`s economy.

## **5.5 Recommendations**

This research recommends KRA to develop an online government to citizen platform with few procedures required when filing individual tax returns. KRA need to keep updating the taxpayers when there are changes in tax laws and regulation to enable the individual taxpayer to be aware of such changes hence enhancing tax compliance by individual taxpayers in Kenya. KRA need to simplify the methodology used in computation of tax liability this is because a complex methodology for computation of tax liability hinders individual taxpayers from being tax compliant since they tend to remit incorrect taxes against their actual tax liability.

This study recommends that tax penalties should be applied in-order to motivate taxpayers, and not to be designed for the purpose of raising additional revenue. In the event tax penalties are used for enhancing compliance level among individual taxpayers, tax penalties should not be capitalized in terms of being source of revenue by itself. For individual taxpayers to have positive orientation towards KRA, tax penalties should also be equitable, proportionate and well defined, to encourage voluntary tax compliance among the individual taxpayers and to deter them from contravening the tax laws.

The study further recommends KRA to interpret tax laws to the taxpayers by availing the tax laws and regulations in writing that enhances the readability of tax legislation by individual taxpayer, hence reducing the complexity of understanding tax law. KRA should sensitize the individual taxpayers on the necessity of them being updated on regards to changes in tax law and regulation in-order to enhance tax compliance among individual taxpayers.

The study recommends KRA to consider increasing tax education to taxpayers with to taxpayer who are not seasoned with tax law knowledge. This will enhance tax compliance especially to individual taxpayers that cannot access tax experts due to factors such as financial constraints. Further, institutions of higher should consider offering taxation modules to all programmes they do offer, hence not confined to business related majors only.

## **5.6 Recommendations for Future Research**

The researcher does recommend that future studies be done on other factors apart from the social economic attributes that might influence tax compliance by individual taxpayers. Future studies should incorporate interview guides and secondary data besides using questionnaires to provide robust and reliable research outcomes through triangulating the findings.

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## APPENDICES

### Appendix I: Study Questionnaire

This questionnaire works to ascertain the effects of Tax knowledge, Tax complexity and Individual taxpayer's characteristics on Tax Compliance by Individual Taxpayers in Kenya. This is an academic study and hence information gathered via the questionnaire will be classified and utilized solely for academic research purpose.

#### PART I: RESPONDENT'S INFORMATION

1. Please specify your respective gender

Male  Female

2. Kindly tick the age brackets you are in

Below 25 Years  25-34 years

35-44 years  45-50 years

Above 50 years

3. Which is your highest level of education you have attained?

Secondary Certificate  Diploma level

Bachelor's degree  Master's degree

PhD / Doctorate

4. Kindly specify where you fall among the following Annual income tax brackets

Below KES 236,880  Above KES 466,704

KES 236,881-351,792

KES 351,793-466,704

## PART II: TAX KNOWLEDGE

Kindly specify by ticking in the appropriate box in respect to each statement.

Statements	Strongly disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly agree 5
I know how to compute my tax liability					
I seek tax consultants to determine my tax liability					
I seek tax consultants to file my returns					
I am familiar with the dates when to file my income tax returns					

## PART III: TAX COMPLEXITY

Kindly tick in the appropriate box in respect to each statement.

Statements	Strongly disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly agree 5
I am familiar with procedures and requirement for filing my returns					
Method used for Computation of tax liability by KRA is too complex					

I am conversant with Income Tax Act CAP 470					
I seek updates regarding to changes in tax law and regulations					

**PART III: INDIVIDUAL TAXPAYER’S CHARACTERISTICS**

Kindly tick in the appropriate box in respect to each statement.

Statements	Strongly disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly agree 5
Earning higher level of income enables a taxpayer in complying with tax legislation					
Older taxpayers are seasoned on issues of taxation hence tax compliant					
My level of income is low hence I comply with tax laws and regulation to avoid accumulating tax liability by being imposed fines for not complying					
Young taxpayers tend to be dynamic and they seek updates regarding changes in tax					

laws and regulation hence more tax compliant than old taxpayers					
I have higher level of education which enables me to be tax compliant					
Low level of education significantly affect tax compliance by individual taxpayer					

**PART IV: TAX PENALTIES**

Kindly tick in the appropriate box in respect to each statement.

Statements	Strongly disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly agree 5
I pay taxes on time to avoid penalties					
Tax penalties significantly affect individual taxpayers in filing their returns correctly.					
I do not file returns because the penalty is low					
I do not file returns because the current tax penalty are lenient					

**PART V: TAX COMPLIANCE BY INDIVIDUAL TAXPAYER**

Kindly specify by ticking in the appropriate box in respect to each statement.

Statements	Strongly disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly agree 5
Tax knowledge significantly affect individual taxpayer`s promptness in paying taxes in order for the taxpayer to be tax compliant					
I have ever been fined for filing returns after specified deadline					
Tax penalties significantly affect individual taxpayers in filing their returns correctly.					
I do not have outstanding debt with KRA					
Individual taxpayer`s characteristics including taxpayer`s age , level of education and level of income have a significant effect on tax compliance by individual taxpayers					
I have never delayed in paying my tax liability					

Numbers of procedures required for tax compliance purpose are too complex that hinder me from being tax compliant					
Tax complexity significantly affect individual taxpayer in complying with tax legislations					