

**DETERMINANTS OF TAX COMPLIANCE BEHAVIOUR IN
KENYA: CASE OF TAX PAYERS IN NAIROBI COUNTY**

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DECLARATION

This project is my original work and has not been submitted for examination for any other course or any other university

Signed.....

Date.....

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This project has been submitted for examination with my approval as the university supervisor

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Date.....

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LIST OF ACRONYMS

KRA	-	Kenya Revenue Authority
TA	-	Tax Administration
VAT	-	Value Added Tax
PAYE -		Pay As You Earn
GDP	-	Gross Domestic Product
CIAT	-	Inter-American Centre of Tax Administration
FY	-	Financial Year
TCMP -		Tax Compliance Management Programme
ETR	-	Electronic Tax Register
TOT	-	Turnover Tax
SME	-	Small and Medium Sized Enterprises
iTax	-	Integrated Tax

ABSTRACT

The study explores determinants of tax compliance in Kenya by analyzing data obtained from taxpayers interviewed within Nairobi County. Data for the study was obtained using structured questionnaires from 100 respondents arrived at by a stratified random sampling. It was established that tax compliance behaviour varies largely depending on whether the taxpayer is an individual or a corporate entity. The findings indicate compliance levels are higher in corporate than with individual tax payers. Findings showed that for corporate tax payers, enforcement measures had a negative impact on tax compliance level while tax rates, compliance costs and nature of tax had a positive impact. For individual tax payers; enforcement measures had a positive impact on tax compliance while tax rates, compliance costs, nature of tax had a negative impact on tax compliance. Results indicate that Kenya's tax design enhances taxpayer's compliance level as both individual and corporate tax payers reported high level of tax compliance despite asserting the presence of many taxes in Kenya.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Taxation is the main source of government's financing in both developed and developing countries. Marina *et al.* (2002) notes that taxation is the main source of generating revenue to finance public expenditure for any government. However, this is not entirely true as developing countries have several other non-tax revenues including user fees charged by different government departments and agencies, privatization of government assets, domestic and foreign borrowings as well as foreign aid. According to Mutua(2012), Kenya finances a considerable percentage of its annual budget from locally generated sources relative to most East African countries whereby a sizeable chunk of annual expenditure is sourced from foreign aid. This has placed tremendous pressure on taxes to shore up the revenue gaps that have been occasioned by the dwindling resources from foreign aid.

Kenya's tax system has been considerably reformed over the last two decades, policy wise, rate have been harmonized especially within the VAT regime where multiple rates have been removed and the external tariffs have also been standardized across the East African Community in line with the common market protocol. Administrative and institutional reforms have also been undertaken with the formation of a single collecting agency for the government mandated with the administration and collection of different taxes, levies and user charges administered by the government. All these reforms have been geared towards enhancing Tax compliance and addressing the problem of equity in

taxation. Andreoni *et al* (1998) describes compliance as spanning the notions of equity, efficiency and incidence in taxation. Tax compliance is the ability of a state to ensure that tax laws and regulation are adequately adhered to by the public. Compliance is very likely never an act of selflessness or being public spirited but is on more occasion a byproduct of a state's ability to ensure that tax frauds and offenders are detected, audited and penalized promptly before the cancer spreads to the rest of the society.

1.1.1 Taxation Policy in Kenya

The tax regime in Kenya under the new constitutional order is based on a two tier government structure with the national government and 47 county governments. The national government imposes both direct taxes and indirect taxes namely; income taxes, value added tax, excise duty and customs or import duty. While the county governments' taxes are mostly comprised of fees, levies, property taxes and licenses. Kenya's tax administration is fairly modern, including consumption taxes like VAT and Excise, a progressive income tax regime based on the graduated scale, fairly robust and harmonized common external tariff on imports and exports with her neighbors and moderate corporate tax rate adjusted for capital allowance on investments and fixed assets.

However, considering that Kenya's informal sector is fairly and the inability of the state to ensure a respectable level of compliance within the sector, raising enough revenue with minimal interference with the economic make-up of the country becomes a monumental challenge.

1.1.2 Tax compliance in Kenya

Tax compliance refers to the fulfilling of all tax procedures and obligations as required by law. Thiga and Muturi (2015) observed that there is a general positive correlation between Tax understanding, lower tax rates, compliance costs, high fines and penalties to the general level of compliance. According to (CIAT, 2006), Kenya is ranked among countries with high levels of tax non-compliance with the revenue authority hard pressed to ensure efficient and effective tax administration. In order to ensure tax compliance, hence raising more revenue the administration of tax in Kenya is governed by Kenya Revenue Authority established through an Act of Parliament on July 1st 1995 (Cap 469).

1.2 Statement of the Problem

Consistent with past trends, revenue collection has increased from Kshs.800.5bn in the Financial Year 2012/13 to Kshs.1.21tn in the Financial Year 2015/16 being an aggregate annual growth of 13.8%, however tax compliance level in Kenya is still considered low at 54% in 2013 against KRA's target of 65% by 2018. From the above figures it can be inferred that the level of tax compliance is still relatively low despite of several initiatives that have been initiated to rope in more taxpayers into the tax bracket. The study aims at understanding the reasons for the low level of tax compliance in Kenya and highlight policy recommendations to address the same.

1.3 Research Questions

1. What factors in the design of a tax system influence the level of tax compliance?

2. What is the level of tax compliance in Kenya?
3. Does Kenya's tax design affect taxpayers' compliance level?
4. What policy implications does the study reveal?

1.4 Research Objectives

The main objective of the study is to determine the factors that influence tax compliance in Kenya and establish the relationship if any that exists between the factors and the level of tax compliance.

1.4.1 Specific Objectives

- i) To determine the Tax compliance level in Kenya.
- ii) To determine factors that affects Tax Compliance in Kenya.
- iii) To determine if Kenya's tax design enhances taxpayer's compliance level.
- iv) To come up with policy recommendation on how to increase tax compliance.

1.5 Importance of the Study

Taxation is the major source of revenue for the government of Kenya. Remarkable improvements have been achieved over the last decade with Tax to GDP ratio at a nominal level of about 20% which is considerably higher than most of its peers within Sub-Saharan Africa. This has enabled the government to finance 60% of the budget from revenue generated internally from taxes, Mutua(2012). Due to the fact that a government's ability to adequately mobilize resources to provide services to its citizenry is critical and fundamental to its existence, the issue of taxation is of grave concern to the

public, businesses community and the economy at large owing to the varied impact that it will have on each of these entities. The issue of tax compliance is therefore cornerstone to the design of a tax system that is devoid of inequality and has minimal distortion on the economy.

Taxpayers' compliance has been a great area of interest among several governments, scholars and tax pundits across the world over. However, serious attention has only been given to studies which would increase revenue collection and enforcement efforts without due regard to factors that influence taxpayer behavior, Lumumba *et al*, (2010). This phenomenon is understandable especially in the developing world where perhaps scarce resources are more inclined to studies which are perceived to have a direct impact on revenue collection.

The study is aimed at reinforcing the already existing literature on tax compliance especially within the realm of the developing world. In addition it will also shed more light on areas which have not been given the due attention both in terms of research and policy formulation. The study is also aimed at bridging the gap that exists between literature on taxation and the operational results on collection by the revenue administration; this will be achieved by analyzing data obtained from respondents juxtaposed against revenue collection figures from the revenue authority.

1.6 Limitations of the Study

The study seeks to establish level of tax compliance within the Kenyan tax system with specific interest on factors that influence taxpayer behavior and attitude towards the tax regime in Kenya. The aspects that will be explored include the impact of Tax rates, compliance costs, enforcement measures and the nature of tax on the general level of compliance.

Although this research has been carefully designed there still exists some limitations both in terms of scope and data obtained. First, the research will only specialize on the factors within the tax in itself that influence compliance, however literature shows that tax compliance is multifaceted and is influenced by factors both within and without the tax design in itself. It therefore follows that certain aspects of compliance will not be addressed within this study however adequate literature has been reviewed on these areas and it is the hope of the researcher that these can be taken up and analyzed separately in another study. Second, the population of the respondent might not be adequately representative as the research will only be carried within Nairobi and the experimental group used in the study will likely to be biased in terms of knowledge and ease of access to the revenue administration. However the sample population will be stratified so as to ensure that it captures all the salient features of the population.

Additionally tax compliance being a sensitive issue most taxpayers will be adamant to declare their compliance status, the questionnaire has however been designed to overcome this challenge by using closed ended matrix and indirectly phrased questions to avoid the implication of 'wrongdoing' on the respondents. Finally great caution will have

to be used when extrapolating the findings of the research to a wider population because they will be generated in an exploratory qualitative inquiry. However, due to the fact that the inquiry is based on a clear theory as will be shown in the review of literature, a series of focused hypothesis-testing studies to experimentally verify and expand the theory generated here.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The problem of tax compliance is as old as taxation in itself. Andreoni et al (1998) observes that the economics of tax compliance can be viewed as a problem of public finance, law enforcement, organizational design, labor supply, or ethics, or a combination of all of these factors. Understanding the taxpayers behavior in the sense of their attitude towards tax compliance and ways in which to positively mitigate against this risk is therefore a quintessential component of any good tax regime in a given country. According to Silvani, (1992), the goal of tax administration is to ensure voluntary compliance and reduce the gap between what taxpayers declare on their return and pay and that which they ought to have paid. Cobham (2005) denotes that tax compliance is a problem to many countries and can be measured by tax to GDP ratio with a high acceptable ratio in developed countries and lower ratio in the developing world.

2.2 Theoretical Review

2.2.1 Ricardian Theory of Taxation

Ricardo based his theory of taxation by synthesizing the impact of profit taxation on wages, profits and rents. He especially focused his attention on the effects of profit taxation by examining two different circumstances; when gold is produced locally, and when it is imported. Ricardo's theory of tax on wages is based upon the distinction between natural and money wages. The theory of natural wages led Ricardo to note that taxation on wages is inequitable as workers are only paid that which is enough to ensure

that they can survive and meet their daily obligations. He concluded that a tax on wages will lead to a rise in wages as workers would demand for increased earnings, this will lead to a decrease in profit and the end result is the same as if the tax was levied on profits.

On Profits, Ricardo envisaged two scenarios, the first case refers to when gold is produced locally whereby he argued that a tax on profits will increase prices as either manufacturers will quit producing that commodity or increase their prices to offset the tax. The increased partial tax in this instance will lead to disproportionate price in all industries other than gold which is untaxed, this leads to increased supply for gold and thereby there will be an accompanying increase in money. When gold is imported Ricardo argues that any rise in prices is only transitional as it would lead to a deficit as more gold is imported to cater for the rise in price, the outflow of money would reduce the prices of the commodity as it becomes more scarce. He notes that a tax on profit had the same effect on the price of commodities both at home and abroad as before the tax was imposed.

Ricardo's fundamental idea concerning land rent is that the natural price of agricultural products is formed on marginal land that is land last cultivated. He adduced that the rising prices of agricultural products are responsible for the emergence of rent and not the other way around. Consequently, if rent income is taxed, all prices will remain the same and the entire burden of taxation will fall on the recipients of this non-functional income. This led him to the argument that tax on rent forms the best object of taxation as they don't

have any distortionary effect on the economy. Finally, Ricardo contends that indirect taxation to a large extent causes final effects similar to those of a profit tax, however since indirect taxation affects both production and consumption its effect on prices and relative prices of commodities are more profound and it should not be used interchangeably with the direct tax on profits.

2.2.2 Ability to Pay Theory of Taxation

This is one of the major theories of modern taxation; it is primarily based on the Law of diminishing marginal utility. Pigou (1928), observed that in all instances in order to secure equal sacrifice, the tax formula must be in some measure progressive, in the sense that the rate of taxation per pound of income grows as incomes grow. The ability to pay theory of taxation has been used to justify the progressive tax system of taxation that is widely practiced across the globe. It is based on the following assumptions; the falling rate of marginal utility of money given an increase in supply, sacrifice in payment of taxes and the ability to quantify the sacrifice.

The justification of the ability to pay theory is based on the premise of sacrifice, the taxpayer sacrifices part of their income and it is turned over to the government to be spent on public goods. The sacrifice is measured both in terms of the burden that a taxpayer bears on sacrificing their income to the public but also the ease with which he got that income.

2.2.3 Benefit Theory of Taxation

This is a theory of taxation that has been advocated as a means to correct the inefficiencies of the Ability to pay theory which has generally been regarded as a 'get at the rich' tax theory. The theory advocates that taxes should be designed in a way as to charge entities on services rendered by the government in proportion to how much it costs to provide them. It mimics a user charge levied by the government towards financing for such services rendered by charging a price for the service consumed by the public. Proponents of the theory argue that it gives a notion of equity on the basis of quid pro quo.

The major shortfall of the theory is on the non-excludability of public goods, in such a scenario it is difficult to assign a price to the consumption of such a good or service. Additionally it negates one of the major objectives of taxation which is the redistribution of wealth across the spectrum of the society. Empirical evidence is also consistent in showing that taxes exceed the costs of services rendered by the government and it therefore becomes difficult to reconcile it as a practical theory of taxation.

2.2.4 Expected Standard Utility Model of Income Reporting

There are several models that try and explain tax compliance behaviour among taxpayers, the major one being the expected standard utility model of income reporting based on the principal-agent relationship. Indeed the best known variant of this model is that of the Allingham and Sandmo in 1972. In their model they were mostly interested in determining whether tax rates has any impact on the level of compliance. From their model they

deduced that given a zero additional cost of an audit and a risk averse tax payer, increased tax rates lead to lower levels of compliance as the benefits of full compliance given an audit reduces with increase in the tax rates. Taxpayers would therefore gain more by under declaring and risking an audit with the accompanying penalties than by fully complying. However, Yitzhaki (1974) observed that increase in tax rates led to higher compliance levels especially in tax designs where the penalties are proportionate to the amount of tax avoided.

2.2.5 Game Theory Model of Equilibrium in Tax Compliance

The second group of models that try to explain compliance behaviour among taxpayers are generally based on the standard game-theory concept of equilibrium. Assuming linear tax rate and penalties, risk neutral taxpayer, no additional cost of an audit other than penalties levied on underreporting of income and that the objective of the tax authority is to maximize revenue. A tax authority will pursue the strategy that provides an optimum audit revenue subject to a fixed audit budget by setting up a cut-off, whereby all declarations below the set level are audited with a probability p but leave out all declarations above the cut-off. The probability p is determined at a level that ensures that all declarations above the set cut-off are honest. The cut-off is chosen so that the audit budget is just exhausted in equilibrium. The model observes that a higher the budget or reduced cost c increases the probability of an audit and hereby increases the level of compliance. However, this strategy has only been proved optimal in instances where the taxpayer are risk neutral, in cases where the taxpayers are risk averse there is no audit strategy under the cut-off criterion.

2.3 Empirical Review

Tax compliance level is determined by a myriad of economic, socio-political and legal factors that influence individual taxpayer's attitude and behaviour towards complying with the outlined legislations and procedures relating to taxation. This section will highlight several studies that have been conducted in this area by previous researchers and explore their findings. The review has been broken down into four broad thematic areas which are considered to have the biggest impact on the level of tax compliance.

2.3.1 Tax Rates

According to Allingham and Sandmo (1972), there is a positive correlation between the tax rate and the level of compliance. These findings have been further supported by Alm *et al* (1990), in their evaluation of the Jamaican income tax structure which showed that small reductions in the marginal tax rate can have a general positive impact on revenue collection but this is only up to a point where the decrease in rate is sufficiently offset by the increased tax base and thereby a net increase in collections. In contrast, Yitzhaki (1974) theoretically proved that tax compliance increases with tax rates. Clotfelter (1983) however found that tax compliance decreases with increasing marginal tax rates, based on data from the Internal Revenue Service's Taxpayers Compliance Measurement Program (TCMP) survey of 1969.

There has been no attempt at a specific research in Kenya on the impact of the tax rate on general compliance however insight of this can be garnered from the unpublished report by Simiyu (2003) and Mutua (2011) which showed that high rates create undue burden to

most businesses and have therefore been a hindrance towards increased compliance. The tax rates in Kenya range from as low as 5% on income derived from qualifying dividends to a high of 37.5% in corporation tax on non-resident companies. Individual income tax rates are progressive in nature with different tax brackets along the income spectrum.

2.3.2 Compliance Costs

Compliance cost involves a myriad of expenses or difficulties encountered by the taxpayer in complying with the tax law both in terms of administrative compliance; that is registration, filing and subsequent payment of the taxes and also technical compliance which involves maintenance of appropriate records, machines and organisation of the supply chain so as to observe the requirements of the law. Administrative compliance is mostly direct and therefore it has been the area of concern in most of previous research. Thiga and Muturi, (2015) when studying Tax compliance among SME's in Kiambu County observed that low compliance cost are associated with high compliance level, these findings have been vindicated by several researchers including Lumumba *et al*, (2010) and Slemrod (1992).

Technical compliance is visible mostly among indirect taxes such as VAT and excise duty that require maintenance of substantive records, machines (ETR, flow meters), and at times might even call for a resident officer to monitor the production process. Although all these help in ensuring compliance it raises cost and increases the premium on non-compliance.

2.3.3 Nature of Tax

This encapsulates the individual characteristics of the tax itself; it involves such areas as the Tax base, frequency of filing returns, methods of collection and the impact and incidence of tax. Andreoni *et.al* (1998) ascertained that certain sources of income with no reporting requirements that is farming income and sole proprietors have a higher prevalence of underreporting their incomes. Credence to this can be observed even locally where PAYE which has very high reporting requirements is usually the best performing tax accounting for over 60% of all income tax.

Certain collection methods also have a very high impact on the level of compliance; the withholding tax mechanism which has been re-introduced lately has already shown that it has a very high potential in terms of collection. The tax base onto which a specific tax is levied also has a considerable impact on the level of compliance, taxes mostly levied on the informal sector *i.e* TOT has generally not performed well. Friedman *et.al* (2000) observed that the size of the unofficial economy is negatively correlated with the tax rate so that a country with a big informal economy should have low rates so as to encourage compliance.

2.3.4 Enforcement Instruments

Slemrod and Yitzhaki (2000) observed that enforcement instruments, including the audit rates and the punishment function, are also determinants of tax compliance, although these variables are rarely available for empirical studies. For example, Dubin *et al.* (1990) and Pommerehne and Weck-Hannemann (1996) found that the probability of audit

significantly affects tax compliance, whereas they found no evidence of a significant deterrent effect of the penalty. Andreoni *et.al* (1998) based on studies of data generated from the Internal Revenue Service's Taxpayers Compliance Management Programme (TCMP) observed that due to the low probability of detection even high penalties has no observable impact on the level of compliance. Merima *et al*, (2013) when studying factors affecting tax compliance in a sample of African countries observed that an increase in perception of individuals about the difficulty of evading taxes enhances taxpayer's attitude towards compliance.

In Kenya the audit coverage is less than 1% of the returns filed, this can explain the low levels of compliance especially on tax heads whose audit coverage is low such as Corporation tax and Excise duty. Noncompliance is also enforced as a civic rather than a criminal offence had hereby in most cases the corrective action are penalties rather than jail term. Penalties levied on non-compliance ranges from 20% in areas where there was limited complicity of the taxpayer to 75% in cases where there was willful action on the taxpayer to evade the tax. The new Tax Procedures Act (2015) has harmonized the penalties and interest charged and therefore there can be no observable variance on compliance based on the punishment function across tax heads.

Empirical studies on tax compliance have also spanned to other factors other than economical that influence taxpayer's behavior these include spheres as psychological, moral, political and social factors such as guilt, a civic sense of duty, perception of fairness, and moral preference. Myles and Naylor (1996) reconciled the standard model

of tax compliance with the social customs and group conformity, indicating that equilibrium with some complying taxpayers could exist. Smith (1992) noted that the factors affecting taxpaying behavior are culturally influenced and thus more cross-country work must be done. As noted above, factors such as the efficiency of government expenditure and the corruption level of government also affect tax- payer compliance.

Trivedi and Shehata (2005) concluded that some taxpayers' behavior is a mixture of both economic and psychological considerations. This observation was the cornerstone in Lumumba et.al (2010) in their paper on taxpayer's attitude and compliance behavior in Kenya; in their findings they observed that majority of Kenyans view the tax regime to be unfair, complex and punitive in nature. Accountability in government expenditure also had a big role in influencing compliance behavior with most respondents intimating that they didn't comply as they weren't confident their taxpayer's money was used correctly.

Impact of tax compliance on revenue has also been a critical area of interest, Besley et al. (1997) contended that the level of taxation and audit policy form the basis of policy decisions of governments. Correspondingly, high rates of noncompliance may necessitate a higher tax rate and higher levels of enforcement than otherwise necessary. Fauvelle-Aymar (1999) investigated differences in the level of tax revenue among developing countries, contending that tax revenue is negatively affected by the degree of taxpayer noncompliance. The data she collected from the developing countries (1980-89) supported the theoretical prediction that tax revenue increases with taxpayer compliance.

2.5 Summary of Literature and Research Gaps

From the above literature there is a wealth of knowledge in the area of tax compliance and its impact on revenue generation. It can be observed that the general trend is that rates of taxes, nature and complexity of the tax, method of collection, enforcement mechanism, government transparency and the structure of the economy all have a positive impact on the level of compliance. This lends credence to the observation by Brown and Mazur (2003) that tax compliance is a multifaceted aspect which involves economic, psychological and socio-cultural factors. However other than Lumumba *et.al* (2010) and the Simiyu (2003) with the former being mostly localised to SME's in Kirinyaga county and the latter being a book on taxation policy in Kenya, there has been no study on the taxpayer compliance behaviour in Kenya or indeed in the developing world.

The most relevant published paper on this Alm *et.al* (1990), mostly based its research on the area of tax structure in Jamaica concluded that reduced tax rates coupled with bigger payroll benefits leads to higher compliance while there will be low compliance if more severe penalties are imposed or if detection becomes more certain. However the paper only reviewed personal income taxes mostly PAYE rather than the whole range of taxes. From the literature it can be deduced that taxpayer compliance behaviour is generally correlated with revenue generation, it is therefore imperative that the factors determining taxpayer attitude and behaviour with regards to compliance are adequately studied and reviewed. This paper tries to bridge the gap between the available information about

taxpayer compliance behaviour and what is optimal so as to design appropriate policies that can increase Tax performance in Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter specifies the model that was used in the study, it also provides an overview of the methods that were used to collect, analyse and interpret the data so as to generate findings necessary to answer the research questions.

3.2 Research Design

This study used a descriptive survey design. Orodho (2003) and Kothari (2006) describe a descriptive survey design as that study which seeks to accurately depict the features of a particular area of study. According to Polit and Beck (2003), in a descriptive study, researchers observe, count, delineate, and classify. Cooper and Schindler (2011) concurred that a study concerned with finding out who, what, when, where and how of a phenomenon is a descriptive study. The descriptive design is expected to derive proper and concise recommendations to the management of Kenya Revenue Authority on the different determinants of tax compliance and the relationship that exists therein.

3.3 Target Population

A population is a group of individual persons, objects or items which enjoy similar characteristics and from which samples are drawn for the purpose of drawing inference. Babbie, (2005). The target population of this study comprised taxpayers both individual and corporates who are registered in Nairobi. By the end of July 2016, KRA had total taxpayer strength of 1,350,310 (Kenya Revenue Authority, iTax system 2016) spread

among the different tax heads and stations within Nairobi. The study sample shall therefore be drawn from this population. The study will stratify Nairobi County as per the KRA tax collection zones. The zone was further stratified into individual and corporate tax payers.

3.4 Sample Design

Israel (1992), observed that the sample size to be used in a study is determined by among other factors the purpose of the study, population to be studied, risk associated with selecting a "bad" sample, and the allowable sampling error. Freidman *et al* (2000) theorized that when estimating percentages, it is the absolute size of the sample which determines accuracy, not the size relative to the population. Warwick and Lininger, (1975) argue that in considering a sample size the key issue is to ensure that its viable given the constrictions of time, finances and human resource. This study assumed a sampling error of $\pm 10\%$, confidence level of 95%, and a degree of variability of 50 % (maximum variability); using Cochran's (1963) formula for calculating population size;

$$n_0 = \frac{Z^2 pq}{e^2}$$

Where Z^2 is the abscissa of the normal curve that cuts off an area α at the tails; the value Z is got from the statistical table, p is the variability of the population, q is $(1-p)$ and e is the desired level of precision we get a sample size of 96. Data for the study will be collected from a sample of 100 respondents for ease of analysis who will be selected using stratified random sampling as shown in the Table No. 3.1:

Table 3.1: Distribution of Respondents

Nairobi County Tax Regions	Tax Payer Category	Population in Zone	Sample Size	Total Sample Respondents
West of Nairobi	Individual	378,177	27	31
	Company	40,852	4	
South of Nairobi	Individual	231,902	16	19
	Company	11,027	3	
North of Nairobi	Individual	281,211	19	23
	Company	39,389	4	
East of Nairobi	Individual	337,050	24	27
	Company	30,702	3	
Total		1,350,310	100	100

3.5 Data Collection

The research instrument to be used in this study was a semi-structured questionnaire. This instrument was found favourable in this study due to a limitation in time as it allows the researcher to acquire a considerable amount of data in a form that is easily amenable for analysis Mugenda and Mugenda, (2003). The questionnaire was be divided into the three parts as per the areas of investigation i.e. taxpayer general information, taxpayers attitude towards tax compliance, taxpayer tax compliance status. Data will be collected from about 86 individual as well as 14 corporate tax payers.

3.6 Data Analysis

The completed questionnaires was analyzed for consistency and then coded. The coded questionnaires will then be entered into the Statistical Packages for Social Scientist (SPSS) computer software for analysis. The data will be analyzed using descriptive statistics including frequencies, mean scores and correlation analysis. This will help in analyzing the information in a systematic way in order to come to useful conclusions and recommendations, whose findings will be presented in tables.

3.6.1 Model Specification

Taxpayer's compliance behavior can be viewed as being multifaceted. This study will analyze factors inherent in the tax design that influences taxpayer's compliance behavior. Tax compliance behavior can be viewed as a function of the tax design, socio-cultural, political and psychological factors. The function can be written as in equation 1.

$$T_c = f(T_d, S, P, P_s) \quad (1)$$

Where T_c represents Taxpayers compliance behavior, T_d represents Tax design, S represents Social factors, P represents Political factors personal factors and P_s represents psychological factors.

The Tax design in equation 1 can be elaborated and rewritten as in equation 2.

$$T_d = f(N, E_f, C_c, T_r) \quad (2)$$

Where N represents Nature of Tax, E_f represents Enforcement measures, C_c represents compliance cost, T_r and represents Tax rates. Given that our research will only concentrate of factors within the tax design that affect tax compliance, equation (2) can be further re-written as;

$$T_c = f(N, E_f, C_c, T_r) \quad (3)$$

The relationships between these variables for this study can be investigated using the model proposed as follows;

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$ where y represents the tax compliance level;

Y = Dependent variable representing Tax Compliance;

β_0 = Standardized co-efficient at no Tax Compliance factor used;

$\beta_1, \beta_2, \beta_3,$ and β_4 = Regression weights attached to the variables or standardized coefficient when tax compliance factors one to four are used,

X_1, X_2, X_3, X_4 = Independent variables representing Tax Compliance factors. For this study they represent nature of tax; enforcement measures; compliance costs; and tax rates respectively, and

ε = error term

This study will base the statistical analysis on the equation and use it to estimate the level of tax compliance as well as the relative importance of each of the independent variables in influencing taxpayer compliance.

3.7 Pre-Estimation Tests

Mugenda and Mugenda (2003) define validity as the degree to which results obtained reflects the actual item that is being studied. In order for the study questionnaire to measure what it has to measure, pilot testing will be done before the study questionnaire is used in actual data collection. A sample questionnaire will be given to ten respondents who will be involved in the study after which it will be checked for completeness,

ambiguity and language. Necessary adjustments will be done before the actual data collection exercise.

Reliability, testing the extent to which the measure is without bias will be done using the Cronbach's alpha, which ranges in value from 0 to 1. The higher the score, the more reliable the generated scale was. This will help improve data collection and to revise the instruments where necessary. To enhance research ethics, the researcher will subject all the resulting responses on the outcomes of analyses of the quantitative data collected during the study and make interpretations accordingly.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents the profiles of respondents that formed the study. The study sought to analyse factors inherent in the tax design that influence tax compliance in Kenya and establish the relationship if any that exists between the factors and the level of tax compliance. This study had four specific objectives. The first objective was to determine the Tax compliance level in Kenya. The second objective was to determine factors that affect Tax Compliance in Kenya. The third objective was to determine if Kenya's tax design enhances taxpayer's compliance level while the fourth and final objective was come up with policy recommendation on how to increase tax compliance. The frequencies, means, standard deviations, correlations and regression coefficients presented, interpreted and findings discussed in relation to the stated research objectives.

4.1.1 Response Rate

Out of the 100 questionnaires distributed (86 individuals and 14 corporates), 62 questionnaires (62 percent) of the questionnaires were filled and collected, all of which were analyzed. This was a high response rate that was enhanced using various ways. First an introductory letter that briefly explained the purpose of the study accompanied the questionnaire assuring anonymity of the responses provided. Secondly, the drop and pick later method used to administer the questionnaires enhanced the response rate. In

addition, phone calls and emails were used so as to get enough responses for statistical analysis and validity.

4.2 Profile of Respondents

Data regarding the characteristics of the respondents including sex, age, highest level of Education, sources of income, employment terms, annual income, length of service in the organization , position in the organization, main business activity, number of employees in the business and annual turnover areas were collected.

4.2.1 Individuals

Gender of Respondents

The distribution of the respondent is presented in Table 4.1

Table 4.1: Distribution of respondents by gender

Gender	Frequency	Percent
Male	29	60
Female	19	40
Total	48	100

The study shows that majority of the respondents were males (n=29, 60 percent) while females were 19 (40 per cent).

Age of respondents

Data on the age of respondents and their distribution is presented in Table 4.2.

Table 4.2: Distribution of respondents by Age

Age Bracket	Frequency	Percent
29 years and below	21	44
30-39 years	20	42
40-49 years	5	10
50 years and above	2	4
Total	48	100

Source: Research Data (2016)

An analysis of respondents' age as shown in the Table 4.2 shows that 44% of the respondents were aged 29 years and below, 42% were aged between 30 and 39 years while 10% were aged between 40 and 49 years. 4% were 50 years and above. This reflects a younger workforce consistent with labour force composition in developing countries.

Highest level of education

Respondents were also asked to state their highest academic qualification. Table 4.3 shows the results.

Table 4.3: Distribution of respondents by Highest level of education

Highest Level of education	Frequency	Percent
Masters	6	13
Bachelors	30	63
Diploma	7	15
Certificate	2	4
Secondary	2	4
Primary	1	2

Total	48	100
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Source: Research Data (2016)

Table 4.3 shows that education levels of the individual tax payers ranged from CPE (Certificate of Primary Education) to Masters Degree level. Results indicated that 7 (15%) were diploma holders with 36 (76%) holding Bachelors or, Masters degrees; while 5 (10%) of the respondents had attained certificate level and less.

Sources of income

The distribution of the respondent is presented in Table 4.4

Table 4.4: Distribution of respondents by sources of income

Sources of income	Frequency	Percent
Employment income	37	77
Business income	6	13
Employment and Business	5	10
Total	48	100

From the Table 4.4, most of most (77%) of the individual tax payers' source of income was employment income, 13% get their income from businesses while 10% of the individual tax payers' source of income was both employment and business income.

Employment Terms

Employment terms of the individual tax payers ranges from being permanent, contractual or self-employment. Distribution of respondents as per their employment terms is presented in Table 4.5.

Table 4.5: Distribution of respondents by Employment terms

Sources of income	Frequency	Percent
Permanent employment	29	60
Contractual employment	13	27
Self-employment	6	13
Total	48	100

Table 4.5 shows that 60% of the respondents were on permanent terms of employment with 27% being on contractual employment and 13% were on self-employment.

Possession of personal identification number

Another demographic aspect that was sought from the respondents was a confirmation of having a Personal Identification Number (PIN), a key requirement in tax compliance in Kenya and Table 4.6 has the findings.

Table 4.6: Distribution of respondents by PIN

Possession of PIN	Frequency	Percent
Yes	16	33
No	10	21
Non Committal	22	46

Total

48

100

An analysis of respondents' confirmation of having a Personal Identification Number (PIN) presented in Table 4.6 shows that 46% of the respondents were non committal. A further 33% confirmed having a Personal Identification Number (PIN) while 21% confirmed having a Personal Identification Number (PIN).

Annual income levels

The distribution of the respondent is presented in Table 4.7

Table 4.7: Distribution of respondents by annual income levels

Annual income levels	Frequency	Percent
Below Kshs. 500, 000	19	40
Between Kshs. 500,001 and Kshs. 1 million	9	19
Between Kshs. 1,000,001 and Kshs. 2 million	16	33
Between Kshs. 2,000,001 and Kshs. 3 million	3	6
Over Kshs. 3 million	1	2
Total	48	100

Findings in Table 4.7 indicate that 40% of respondents had their annual income below Kshs. 500,000. 9 (19%) asserted that their annual income was between Ksh. 500,001 and Kshs. 1 million while 16 (33%) had their annual income between Ksh. 1,000,001 and Kshs. 2 million. 6% of the respondents indicated that their annual income was between Kshs. 2,000,001 and Kshs. 3 million while 1 (2%) indicated that his/her annual income was over Kshs. 3 million.

Opinion on failure to pay taxes

This study further sought information of the respondents' position on failure to pay taxes in Kenya and Table 4.8 has the findings.

Table 4.8: Distribution of respondents by opinion on failure to pay taxes

Opinion of Failure to pay to pay taxes	Frequency	Percent
Wrong and punishable	31	65
Wrong but understandable	14	29
Not wrong at all	3	6
Total	48	100

An analysis of respondents' position on failure to pay taxes in Kenya as presented in Table 4.8 shows that 65% of the respondents held that failure to pay taxes was wrong and punishable. A further 29% asserted that failure to pay taxes wrong but understandable while 6% held that failure to pay taxes was not wrong at all.

Years of paying taxes

The distribution of the respondents regarding the number of years within which they have been an active taxpayer is presented in Table 4.9

Table 4.9: Distribution of respondents by period paying taxes

Period paying taxes	Frequency	Percent
1-5 years	29	60
6-10 years	10	21
11-15 years	4	8
Over 15 years	5	11
Total	48	100

An analysis of respondents' years of paying taxes as shown in the Table 4.9 shows that 60% of the respondents have been paying taxes for less than 5 years while 21 % have been paying taxes for a period of between 6 and 10 years. 8% have been paying taxes for a period of between 11 and 15 years while 11%% have been paying taxes for over 15 years. This reflects consistent tax compliance behaviour among the respondents.

4.2.2 Corporate

Tax Station

Correspondents were sought from different regions within Nairobi to capture different geographical locations this is in line with KRA strategy in collection of taxes within Nairobi county. The surveyed persons were drawn from different tax stations namely West of Nairobi, South of Nairobi, East of Nairobi and North of Nairobi as shown in Table 4.10.

Table 4.10: Distribution of respondents by collection zones

Sub-county	Frequency	Percent
West of Nairobi	5	36
East of Nairobi	3	21

South of Nairobi	2	14
North of Nairobi	4	29
Total	14	100

36% of the respondents are in West of Nairobi, 21% in East of Nairobi, 14% are in South of Nairobi while 29% are in North of Nairobi as shown in Table 4.10.

Position in the organization

The distribution of the respondents is presented in Table 4.11

Table 4.11: Distribution of respondents by position in the organization

Position held	Frequency	Percent
Accountant	6	43
Business Owner	4	29
Managing Directors	1	7
Finance Managers	1	7
HR Manager	1	7
Operations Manager	1	7
Total	14	100

An analysis of respondents' position held in the organization presented in Table 4.11 shows that 43% of the respondents were accountants. A further 29% were business owners while 7% each were managing director, finance manager, human resource manager, and operations manager. This implies that the respondents for this study are of diverse positions and thus hold diverse opinion on the study subject. This helps validate study findings.

Length of time in existence

The length time the corporate entities have been in existence was also sought in this study and the results are presented in Table 4.12.

Table 4.12: Distribution of respondents by period organization has been in existence

Period in existence	Frequency	Percent
Less than One year	1	7
1-5 Years	3	21
6-10 Years	5	36
More than 10 Years	5	36
Total	14	100

Table 4.9 shows that 7% of the respondents have been in existence for less than 5 years while 21 % have been in existence for a period of between 1 and 5 years. 36% have been in existence for a period of between 6 and 10 years while another 36%% have been in existence for over 10 years.

Main business activity

The surveyed population was asked to indicate their main business activity. Table 4.13 provides information on this aspect.

Table 4.13: Distribution of respondents by main business activity

Period in existence	Frequency	Percent
Service	9	64
Commercial/Industrial	4	29
Fabrication	1	7
Total	14	100

Findings in Table 4.13 show that 64% of the respondents were service organizations, 29% were commercial while 7% were in fabrication business.

Number of employees

Respondents were asked to indicate their enterprises' number of employees and Table 4.14 has the findings.

Table 4.14: Distribution of respondents by number of employees

Position held	Frequency	Percent
Below 20	8	57
Between 21 and 40	3	22
Between 41 and 50	1	7
Between 51 and 80	1	7
Between 81 and 100	1	7
Total	14	100

Findings in Table 4.14 indicate that 57% had employees less than 20, 22% had employees ranging between 21 to 40 while while 7% each had employees ranging between 41 to 50, between 51 to 80 and between 81 to 1000.

Opinion on failure to pay taxes

This study further sought information of the respondents' position on failure to pay taxes in Kenya and Table 4.15 has the findings.

Table 4.15: Distribution of respondents by opinion on failure to pay taxes

Opinion of Failure to pay to pay taxes	Frequency	Percent
Wrong and punishable	10	72
Wrong but understandable	2	14
Not wrong at all	2	14
Total	14	100

An analysis of respondents' position on failure to pay taxes in Kenya presented in Table 4.15 shows that 72% of the respondents held that failure to pay taxes was wrong and punishable. A further 14% asserted that failure to pay taxes wrong but understandable while 14% held that failure to pay taxes was not wrong at all.

Annual business turnover

The distribution of the respondent is presented in Table 4.16

Table 4.16: Distribution of respondents by Annual business turnover

Annual income levels	Frequency	Percent
Below Ksh 500, 000	2	14
Between Ksh 500,001 and Ksh 1 Million	2	14
Between Ksh 1,000,001 and Ksh 2 Million	2	14
Between Ksh 2,000,001 and Ksh 3 Million	2	14
Over Ksh 3 Million	6	44
Total	14	100

Findings in Table 4.16 indicate that 14% of respondents had their annual business turnover below Kshs. 500,000. 2 (14%) asserted that their annual business turnover was between Ksh. 500,001 and Kshs. 1 million while 2 (14%) had their annual business turnover between Ksh. 1,000,001 and Kshs. 2 million. 14% of the respondents indicated that their annual business turnover was between Kshs. 2,000,001 and Kshs. 3 million while 6 (44%) indicated that their annual business turnover was over Kshs. 3 million.

4.3 Descriptive Statistics

4.3.1 Individuals

4.3.1.1 Tax Compliance

As the study's dependent variable tax compliance behaviour was measured by seven (7) items on a five point Likert scale where 1 represented 'not at all' and 5 'very great extent'. The scores "Not at all" and "Less extent" represented an aspect of tax compliance behaviour exhibited to a "Small Extent" (SE), equivalent to 1 to 2.4 on the continuous Likert scale ($1 \leq SE < 2.5$). The scores of "Some extent" represented an aspect of tax

compliance behaviour exhibited to a “Moderate Extent” (ME). This was equivalent to 2.5 to 3.4 on the Likert scale ($2.5 \leq ME < 3.4$). The score of “Great extent” and “Very Great” represented an aspect of tax compliance behaviour exhibited to a “Large Extent” (LE). This was equivalent to 3.5 to 5.0 on the Likert scale ($3.5 \leq LE < 5.0$). A summary of the descriptive statistics for analysis of tax compliance behaviour is presented in the Figure 4.17.

Table 4.17: Tax compliance behavior individual tax payers

Aspect of tax compliance	n	Mean	Std. Dev.
Obtaining a personal identification number (PIN) when its due	48	4.0	1.33
Filing of returns on income by the prescribed date	48	3.9	1.12
Paying of tax dues by the prescribed date	48	3.9	1.23
Accurate calculation of tax due	48	3.9	1.27
Accurate and prompt declaration of tax due	48	3.8	1.14
Cooperation with KRA officers in conducting audits by providing all the necessary records	48	3.6	1.20
Payment of fines and penalties for overdue taxes	48	3.4	1.32
<i>Cronbach Alpha Coefficient = 0.855</i>			
<i>Composite Mean = 3.78, SD = 0.90</i>			

From Table 4.17, there was high level of internal consistency with Cronbach’s Alpha Coefficient of 0.855. The composite mean score (3.78) showed that tax compliance behaviour is exhibited to a large extent by individual tax payers, with a standard deviation of <1.0 showing less dispersions from the midpoint. This shows that the

respondents did not differ widely on the extent to individual tax payers comply with tax requirements. This variable was measured by seven (7) items.

Findings show that to a large extent individual tax payers obtain a personal identification number (PIN) when its due, file returns on income by the prescribed date, pay tax dues by the prescribed date, undertake accurate calculation of tax due, undertake accurate and prompt declaration of tax due and cooperate with KRA officers in conducting audits by providing all the necessary records with mean scores equivalent to 3.5 to 5.0 on the Likert scale ($3.5 \leq LE < 5.0$) on the likert scale. However, findings indicate that to a moderate extent, individual tax payers pay fines and penalties for overdue taxes with a mean score was equivalent to 2.5 to 3.4 on the Likert scale ($2.5 \leq ME < 3.4$).

4.3.1.2 Tax Rates

This study sought to establish the effect of tax rates on tax compliance behaviour among individual tax payers and Tables 4.18, 4.19 and 4.20 present findings to this.

Table 4.18: Perception that Kenyan tax rates are high

Respondents	Frequency	Percent
Yes	38	79
No	10	21
Total	48	100

Findings in Table 4.18 indicate that 79% of individual tax payers asserted that Kenyan tax rates are high while 21% stated otherwise.

Table 4.19: Existence of too many forms of taxes in Kenya

Respondents	Frequency	Percent
Yes	36	75
No	12	25
Total	48	100

Analysis of findings in Table 4.19 indicate that 75% of individual tax payers asserted that there are too many forms of taxes in Kenyan while 25% stated otherwise. This could be a pointer to tax evasion in trying to avoid some taxes.

Table 4.20: Amount payable in terms of taxes influence your tax compliance

Respondents	Frequency	Percent
Yes	32	67
No	16	33
Total	48	100

Findings in Table 4.20 indicate that 67% of individual tax payers asserted that the amount payable in terms of taxes influence tax compliance levels while 33% stated asserted that the amount payable in terms of taxes does not influence tax compliance levels.

4.3.1.3 Compliance Costs

To measure the extent to which compliance costs affect tax compliance among individual tax payers, five (5) items were developed on a five point Likert scale where 1 represented 'not at all' and 5 'very great extent'.

A summary of the descriptive statistics for analysis of how compliance costs influences tax compliance behaviour among individual tax payers is presented in Table 4.21.

Table 4.21: Compliance costs

Aspect of compliance costs	n	Mean	Std. Dev.
Actual payment of the taxes	48	3.3	1.25
Maintenance of appropriate records	48	3.0	1.34
Software and Internet	48	2.9	1.59
Cost of Employing professional staff	48	2.7	1.41
Tax registration process	48	2.7	1.37

Cronbach Alpha Coefficient = 0.751
Composite Mean = 2.90, SD = 0.99

From Table 4.21, there was high level of internal consistency with Cronbach's Alpha Coefficient of 0.751. This variable was measured by five (5) items. Findings show that all tenets compliance costs influences tax compliance behaviour among individual tax payers to a moderate extent with mean scores equivalent to 2.5 to 3.4 ($2.5 \leq ME < 3.4$) on the likert scale. The composite mean score (2.90) showed that compliance costs has influenced tax compliance behaviour among individual tax payers to a moderate extent with the mean score equivalent to 2.5 to 3.4 on the Likert scale ($2.5 \leq ME < 3.4$). However, with a standard deviation of >1.0 showing more dispersions from the midpoint, this shows that the respondents differed widely on the extent to which compliance costs influences tax compliance behaviour among individual tax payers.

4.3.1.4 Nature of Tax

To measure the extent to which nature of tax affect tax compliance among individual tax payers, five (5) items were developed on a five point Likert scale where 1 represented 'not at all' and 5 'very great extent'. A summary of the descriptive statistics for analysis of how nature of tax influences tax compliance behaviour among individual tax payers is presented in Table 4.22.

Table 4.22: Nature of Tax

Aspect of Nature of tax	n	Mean	Std. Dev.
Laws relating to taxation are easily interpreted	48	3.1	1.28
Ability of the revenue authority to access other information regarding your declaration	48	3.1	1.27
How the tax is remitted i.e directly or indirectly	48	3.0	1.18
Frequency of filing the return	48	3.0	1.51
Source of income from which the tax is based	48	2.9	1.39

Cronbach Alpha Coefficient = 0.813
Composite Mean = 3.03, SD = 1.01

From Table 4.22, there was high level of internal consistency with Cronbach's Alpha Coefficient of 0.813. This variable was measured by five (5) items. Findings show that all aspects of nature of tax influences tax compliance behaviour among individual tax payers to a moderate extent with mean scores equivalent to 2.5 to 3.4 ($2.5 \leq ME < 3.4$) on the likert scale. The composite mean score (3.03) showed that nature of tax has influenced tax compliance behaviour among individual tax payers to a moderate extent with the mean score equivalent to 2.5 to 3.4 on the Likert scale ($2.5 \leq ME < 3.4$). However, with a

standard deviation of >1.0 showing more dispersions from the midpoint, this shows that the respondents differed widely on the extent to which nature of tax influences tax compliance behaviour among individual tax payers.

4.3.1.5 Enforcement Instruments

This study further sought to establish the effect of enforcement instruments on tax compliance by individual tax payers. To achieve this objective, six (6) items were developed on a five point Likert scale where 1 represented 'not at all' and 5 'very great extent'. A summary of the descriptive statistics for analysis of how enforcement instruments influence tax compliance behaviour among individual tax payers is presented in Table 4.23.

Table 4.23: Enforcement instruments

Aspect of enforcement instrument	n	Mean	Std. Dev.
How government uses the money collected from taxes levied	48	3.9	1.41
Taxes and fines levied by KRA	48	3.5	1.25
View of taxation as a civic duty	48	3.3	1.50
Use of Information from third parties by KRA	48	3.2	1.20
Ability of KRA to detect under-declarations in tax returns	48	3.1	1.43
Prompt audit and prosecution of tax offenders	48	3.0	1.30
<i>Cronbach Alpha Coefficient = 0.745</i>			
<i>Composite Mean = 3.31, SD = 0.811</i>			

From Table 4.23, there was high level of internal consistency with Cronbach’s Alpha Coefficient of 0.745. Findings show that with a composite mean score of 3.31, enforcement instruments has influenced tax compliance behaviour among individual tax payers to a moderate extent with the mean score equivalent to 2.5 to 3.4 on the Likert scale ($2.5 \leq ME < 3.4$). Moreover, with a standard deviation of < 1.0 showing less dispersions from the midpoint, this shows that the respondents did not differ widely on the extent to which enforcement instruments influence tax compliance behaviour among individual tax payers.

4.3.2 Corporates

4.3.2.1 Tax Compliance

As the study’s dependent variable tax compliance behaviour among corporate entities was measured by seven (7) items on a five point Likert scale where 1 represented ‘not at all’ and 5 ‘very great extent’. A summary of the descriptive statistics for analysis of tax compliance behaviour is presented in the Figure 4.24.

Table 4.24: Tax compliance by Corporates

Aspect of tax compliance	n	Mean	Std. Dev.
Paying of tax dues by the prescribed date	14	4.3	1.14
Payment of fines and penalties for overdue taxes	14	4.1	1.17
Cooperation with KRA officers in conducting audits by providing all the necessary records	14	4.1	1.27
Obtaining a personal identification number (PIN) when its due	14	4.0	1.57

Accurate calculation of tax due	14	3.9	1.17
Accurate and prompt declaration of tax due	14	3.8	1.05
Filing of returns on income by the prescribed date	14	3.6	1.28
<i>Cronbach Alpha Coefficient = 0.846</i>			
<i>Composite Mean = 3.96, SD = 0.90</i>			

Analysis of findings in Table 4.17 shows that there was high level of internal consistency with Cronbach's Alpha Coefficient of 0.846. As shown in the table, the composite mean score (3.96) showed that tax compliance behaviour is exhibited to a large extent by corporate tax payers, with a standard deviation of <1.0 showing less dispersions from the midpoint. This shows that the respondents did not differ widely on the extent to corporate tax payers comply with tax requirements. Findings show that to a large extent corporate tax payers obtain a personal identification number (PIN) when its due, file returns on income by the prescribed date, pay tax dues by the prescribed date, undertake accurate calculation of tax due, undertake accurate and prompt declaration of tax due, cooperate with KRA officers in conducting audits by providing all the necessary records and pay fines and penalties for overdue taxes with mean scores equivalent to 3.5 to 5.0 on the Likert scale ($3.5 \leq LE < 5.0$) on the likert scale.

4.3.2.2 Tax Rates

This study sought to establish the effect of tax rates on tax compliance behaviour among corporate tax payers and Tables 4.25, 4.26 and 4.27 present findings to this.

Table 4.25: Perception that Kenyan tax rates are high

Respondents	Frequency	Percent
Yes	10	71
No	4	29
Total	14	100

Findings in Table 4.25 indicate that 71% of corporate tax payers asserted that Kenyan tax rates are high while 29% stated otherwise.

Table 4.26: Existence of too many forms of taxes in Kenya

Respondents	Frequency	Percent
Yes	10	71
No	4	29
Total	14	100

Analysis of findings in Table 4.26 indicate that 71% of corporate tax payers asserted that there are too many forms of taxes in Kenyan while 29% stated otherwise. This could be a pointer to tax evasion in trying to avoid some taxes.

Table 4.27: Amount payable in terms of taxes influence your tax compliance

Amount payable in terms of taxes influence your tax compliance	Frequency	Percent
Yes	6	43
No	8	57
Total	14	100

Findings in Table 4.27 indicate that 43% of corporate tax payers asserted that the amount payable in terms of taxes influence tax compliance levels while 57% stated asserted that the amount payable in terms of taxes does not influence tax compliance levels.

4.3.2.3 Compliance Costs

To measure the extent to which compliance costs affect tax compliance among corporate tax payers, five (5) items were developed on a five point Likert scale where 1 represented 'not at all' and 5 'very great extent'. A summary of the descriptive statistics for analysis of how compliance costs influences tax compliance behaviour among corporate tax payers is presented in Table 4.28.

Table 4.28: Compliance costs by Corporates

Aspect of compliance costs	n	Mean	Std. Dev.
Cost of Employing professional staff	14	3.9	1.29
Tax registration process	14	3.1	1.59
Actual payment of the taxes	14	2.9	1.54
Maintenance of appropriate records	14	2.4	1.40
Software and Internet	14	2.0	1.11
<i>Cronbach Alpha Coefficient = 0.846</i>			
<i>Composite Mean = 2.86, SD = 1.01</i>			

Analysis of findings in Table 4.28 indicates that there was high level of internal consistency with Cronbach's Alpha Coefficient of 0.846. Findings show that with a composite mean score of 2.86, compliance costs has influenced tax compliance behaviour

among corporate tax payers to a moderate extent with the mean score equivalent to 2.5 to 3.4 on the Likert scale ($2.5 \leq ME < 3.4$). However, with a standard deviation of >1.0 showing more dispersions from the midpoint, this shows that the respondents differed widely on the extent to which compliance costs influences tax compliance behaviour among corporate tax payers.

4.3.2.4 Nature of Tax

To measure the extent to which nature of tax affect tax compliance among corporate tax payers, five (5) items were developed on a five point Likert scale where 1 represented 'not at all' and 5 'very great extent'. A summary of the descriptive statistics for analysis of how nature of tax influences tax compliance behaviour among corporate tax payers is presented in Table 4.29.

Table 4.29: Nature of tax

Aspect of Nature of tax	n	Mean	Std. Dev.
Frequency of filing the return	14	3.7	1.44
Laws relating to taxation are easily interpreted	14	3.1	1.27
Ability of the revenue authority to access other information regarding your declaration	14	2.8	1.58
Source of income from which the tax is based	14	2.6	1.78
How the tax is remitted i.e directly or indirectly	14	2.4	1.34

Cronbach Alpha Coefficient = 0.740
Composite Mean = 2.93, SD = 1.05

From Table 4.29, there was high level of internal consistency with Cronbach's Alpha Coefficient of 0.740. The composite mean score (2.93) showed that nature of tax has influenced tax compliance behaviour among corporate tax payers to a moderate extent with the mean score equivalent to 2.5 to 3.4 on the Likert scale ($2.5 \leq ME < 3.4$). However, with a standard deviation of >1.0 showing more dispersions from the midpoint, this shows that the respondents differed widely on the extent to which nature of tax influences tax compliance behaviour among corporate tax payers.

4.3.2.5 Enforcement Instruments

To establish the effect of enforcement instruments on tax compliance by corporate tax payers, six (6) items were developed on a five point Likert scale where 1 represented 'not at all' and 5 'very great extent'. A summary of the descriptive statistics for analysis of how enforcement instruments influence tax compliance behaviour among corporate tax payers is presented in Table 4.30.

Table 4.30: Enforcement instruments

Aspect of enforcement instrument	n	Mean	Std. Dev.
Taxes and fines levied by KRA	14	3.9	1.14
Use of Information from third parties by KRA	14	3.8	1.48
Ability of KRA to detect under-declarations in tax returns	14	3.2	1.25
Prompt audit and prosecution of tax offenders	14	2.9	1.49
How government uses the money collected from taxes levied	14	2.9	1.35
View of taxation as a civic duty	14	2.4	1.55

Cronbach Alpha Coefficient = 0.871

Composite Mean = 3.19, SD = 0.613

From Table 4.30, there was high level of internal consistency with Cronbach's Alpha Coefficient of 0.871. Findings show that with a composite mean score of 3.19, enforcement instruments has influenced tax compliance behaviour among corporate tax payers to a moderate extent with the mean score equivalent to 2.5 to 3.4 on the Likert scale ($2.5 \leq ME < 3.4$). Moreover, with a standard deviation of < 1.0 showing less dispersions from the midpoint, this shows that the respondents did not differ widely on the extent to which enforcement instruments influence tax compliance behaviour among corporate tax payers.

4.4 Inferential Statistics

4.4.1 Correlation Coefficients

This section presents the correlation analysis of various variables in the study. The Pearson's Product moment correlation, which is a non-parametric measure of the strength and direction of association that exists between two variables, was used. Tables 4.31 and 4.32 present the Pearson's Correlation Coefficients.

Table 4.31: Correlation Coefficients for individual tax payers

		Tax Compliance	Compliance Costs	Nature of Tax	Enforcement Instruments	Tax Rates
Tax Compliance	Pearson Correlation	1	-.056	-.112	.100	-.032
	Sig. (2-tailed)		.004	.043	.003	.008
	N		48	48	48	48

Compliance Costs	Pearson Correlation	1	.716**	.314*	-.209
	Sig. (2-tailed)		.000	.030	.015
	N		48	48	48
Nature of Tax	Pearson Correlation		1	.287*	-.164
	Sig. (2-tailed)			.008	.026
	N			48	48
Enforcement Instruments	Pearson Correlation			1	.165
	Sig. (2-tailed)				.016
	N				48
Tax Rates	Pearson Correlation				1
	Sig. (2-tailed)				
	N				

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

Pearson's correlations analysis was conducted at 95% confidence interval and 5% precision. The Pearson's Product moment correlation results described in Table 4.31 shows that enforcement instruments showed weak but significant positive relationship with tax compliance behaviour among individual tax payers, showing a coefficient of $r = 0.100, P < .01$. The results in Table 4.31 show that weak but significant negative relationships are observed between compliance costs ($r = -.056, p < .01$), nature of tax ($r = -0.112, p < .01$) and tax rates ($r = -0.032, p < .01$) tax compliance behaviour among individual tax payers.

Table 4.32: Correlation Coefficients for corporate tax payers

		Tax Compliance	Compliance Costs	Nature of Tax	Enforcement Instruments	Tax Rates
Tax Compliance	Pearson Correlation	1	.352	.514	-.458	.388
	Sig. (2-tailed)		.021	.060	.100	.170
	N		14	14	14	14
Compliance Costs	Pearson Correlation		1	.756**	-.265	.060
	Sig. (2-tailed)			.002	.036	.083
	N			14	14	14
Nature of Tax	Pearson Correlation			1	-.401	.139
	Sig. (2-tailed)				.015	.063
	N				14	14
Enforcement Instruments	Pearson Correlation				1	-.637*
	Sig. (2-tailed)					.014
	N					14
Tax Rates	Pearson Correlation					1
	Sig. (2-tailed)					
	N					

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

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

Pearson's correlations analysis was conducted at 95% confidence interval and 5% precision. The Pearson's Product moment correlation results described in Table 4.32 shows that enforcement instruments showed weak but significant negative relationship with tax compliance behaviour among corporate tax payers, showing a coefficient of $r = -0.458$, $P < .01$. The results in Table 4.31 show that moderate but significant positive relationships are observed between compliance costs ($r = .352$, $p < .01$), nature of tax ($r = .514$, $p < .01$) and tax rates ($r = .388$, $p < .01$) and tax compliance behaviour among corporate tax payers.

4.4.2 Regression Coefficients

4.4.2.1 T-Test for Coefficients

The relationships between these variables for this study can be investigated using the model proposed as follows;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

where y represents the tax compliance level;

Y = Dependent variable representing Tax Compliance;

β_0 = Standardized co-efficient at no Tax Compliance factor used;

$\beta_1, \beta_2, \beta_3,$ and β_4 = Regression weights attached to the variables or standardized coefficient when tax compliance factors one to four are used,

X_1, X_2, X_3, X_4 = Independent variables representing Tax Compliance factors. For this study they represent nature of tax; enforcement measures; compliance costs; and tax rates respectively, and

ε = error term

Tables 4.33 and 4.34 presents the coefficients of regressions equations for individual tax payers and corporate tax payers respectively.

Table 4.33: Coefficients of Regression Equation for individual tax payers

Model	Unstandardized Coefficients		Standardized	t	Sig.
	B	Std. Error	Coefficients Beta		
(Constant)	3.972	.834		4.763	.000
Tax Rates	-.253	.452	-.088	-.559	.579
Compliance Costs	-.004	.201	-.005	-.021	.983
Nature of Tax	-.153	.193	-.170	-.792	.433
Enforcement Instruments	.184	.181	.165	1.012	.317

a. Dependent Variable: Tax Compliance

Source: Research Data (2016)

Substituting the beta coefficients from Table 4.33 generates the predictor equation

$$Y = 3.972 - 0.253_{\text{tax rates}} - 0.004_{\text{compliance costs}} - 0.153_{\text{nature of tax}} + 0.184_{\text{enforcement instruments}} + \epsilon$$

The findings shows that all factors constant,a unit increase in tax rates led to a 0.0253 reduction in tax compliance level among individual tax payers. The findings shows that all factors constant,a unit increase in compliance costs led to a 0.004 decrease in tax compliance level among individual tax payers. The findings shows that all independent factors constant, a unit increase in nature of tax led to a 0.153 decrease in tax compliance level among individual tax payers. The findings shows that all factors constant, a unit increase in enforcement instruments led to a 0.184 increase in tax compliance level among individual tax payers. Thus, enforcement instruments had a positive impact on tax compliance level among individual tax payers while tax rates, compliance costs, nature of tax had a negative impact on tax compliance level among individual tax payers.

Table 4.34: Coefficients of Regression Equation for Corporate tax payers

Model	Unstandardized Coefficients		Standardized	t	Sig.
	B	Std. Error	Coefficients Beta		
(Constant)	2.608	3.068		0.850	0.00
Tax Rates	0.643	0.909	0.245	0.708	0.00
Compliance Costs	0.039	0.329	-0.048	-0.120	0.00
Nature of Tax	0.400	0.366	0.466	1.093	0.00
Enforcement Instruments	-0.186	0.549	-0.127	-0.340	0.00

a. Dependent Variable: Tax Compliance

Substituting the beta coefficients from Table 4.34 generates the predictor equation

$$Y = 2.608 + 0.643_{\text{tax rates}} + 0.039_{\text{compliance costs}} + 0.400_{\text{nature of tax}} - 0.186_{\text{enforcement instruments}} + \epsilon$$

As indicated in Table 4.34, taking all other independent variables at zero, a unit increase in tax rates led to a 0.643 increase in tax compliance level among corporate tax payers. The findings indicate that taking all other independent variables at zero, a unit increase in compliance costs led to a 0.039 increase in tax compliance level among corporate tax payers. The findings indicate that taking all other independent variables at zero, a unit increase in nature of tax led to a 0.400 increase in tax compliance level among corporate tax payers. The findings indicate that taking all other independent variables at zero, a unit increase in enforcement instruments led to a 0.186 decrease in tax compliance level among corporate tax payers. Thus, enforcement instruments had a negative impact on tax compliance level among corporate tax payers while tax rates, compliance costs and nature of tax had a positive impact on tax compliance level among corporate tax payers.

4.4.2.2 Coefficient of Determination

This explains the extent to which a change in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (tax compliance level) that is explained by the four independent variables (tax rates, compliance costs, nature of tax and enforcement instruments). Table 4.35 and 4.36 presents the regression model summaries for individual tax payers and corporate tax payers respectively.

Table 4.35: Model summary for individual tax payers

Model Summary^b					
Model	R	R Squared	Adjusted R Squared	Std. Error of the Estimate	Sig.
1	.888a	.788	.876	.368	0.00

a. Predictors: (Constant), Enforcement Instruments, Tax Rates, Nature of Tax, Compliance Costs
b. Dependent Variable: Tax compliance.

Analysis in Table 4.35 shows that the four factors accounted for 78.8% of variance in the tax compliance level among individual tax payers ($R^2 = 0.788$). This means that the four factors studied in the study (tax rates, compliance costs, nature of tax and enforcement instruments) can explain 78.8% of changes in the dependent variable (tax compliance level among individual tax payers). With an $R^2 = 0.788$ and Cronbach's Alpha exceeding 0.7, we can infer that the variation left unexplained (21.2%) by the model was not caused by a large rating error but rather by the exclusion of predictors from the model that affect tax compliance level among individual tax payers. The P –value of 0.000 (less than 0.05) implies that the model of tax compliance level among individual tax payers is significant at the 5 percent significance. This means that other factors not studied contribute to 21.2% variation in tax compliance level among individual tax payers in Kenya.

Table 4.36: Model summary for corporate tax payers

Model Summary					
Model	R	R Squared	Adjusted R Squared	Std. Error of the Estimate	Sig.
1	.613a	.376	.099	.851	0.00

a. Predictors: (Constant), Enforcement Instruments, Tax Rates, Nature of Tax, Compliance Costs
b. Dependent Variable: Tax compliance.

Analysis in Table 4.36 shows that the four factors accounted for 37.6% of variance in the tax compliance level among corporate tax payers ($R^2 = 0.376$). This means that the four

factors studied in the study (tax rates, compliance costs, nature of tax and enforcement instruments) can explain 37.6% of changes in the dependent variable (tax compliance level among corporate tax payers). With an $R^2 = 0.376$ and Cronbach's Alpha exceeding 0.7, we can infer that the variation left unexplained (62.4%) by the model was not caused by a large rating error but rather by the exclusion of predictors from the model that affect tax compliance level among corporate tax payers. The P-value of 0.000 (less than 0.05) implies that the model of tax compliance level among corporate tax payers is significant at the 5 percent significance. This means that other factors not studied contribute to 62.4% variation in tax compliance level among corporate tax payers in Kenya.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the findings generated in the previous chapter and the conclusions that can be drawn from the above findings. It also highlights policy recommendations that as well as suggestions for further studies.

5.2 Summary of findings

This section presents a summary of the study findings in relation to study objectives. The general objective of the study was to determine the factors that influence tax compliance in Kenya and establish the relationship if any that exists between the factors and the level of tax compliance. This study analyzed how tax rates, compliance costs, nature of tax and enforcement instruments affect tax compliance in both individual and corporate tax payers.

This research used a descriptive survey whose target population consisted comprise taxpayers both individual and corporates who are registered in Nairobi. A total of 100 respondents were sampled for this study. Out of the 100 questionnaires distributed (86 individuals and 14 corporates), 62 questionnaires (62 percent) of the questionnaires were filled and collected, all of which were analyzed. The study used primary data that was collected using a semi-structured questionnaire. To achieve an adequate representation,

this study analyzed how tax rates, compliance costs, nature of tax and enforcement instruments affect tax compliance in both individual and corporate tax payers.

The strength of the resultant relationships, between the variables, whether positive or negative, was tested using both parametric and non-parametric statistical methods such as multiple linear regression analysis. To ensure validity of the research questionnaire used in collecting data, the researcher ensured that the questionnaire was checked for validity and assessed for relevance of the questions and content to the study. The internal reliability was tested using the Cronbach's Alpha coefficient.

It was established that tax compliance behaviour is exhibited to a large extent by both individual and corporate tax payers. The findings indicate compliance levels are higher in corporate than in individual tax payers as shown in the composite mean scores (3.78 for individual tax payers and 3.96 for corporate tax payers). Findings also showed that for corporate tax payers, enforcement instruments had a negative impact on tax compliance level while tax rates, compliance costs and nature of tax had a positive impact on tax compliance level.

For individual tax payers enforcement instruments had a positive impact on tax compliance level while tax rates, compliance costs, nature of tax had a negative impact on tax compliance level. Results also indicated that Kenya's tax design enhances taxpayer's compliance level as both individual and corporate tax payers reported tax compliance to a large extent despite asserting presence of many taxes.

A multivariate regression model was applied to determine the relative importance of each of the variables with respect to tax compliance levels in Kenya. It was established that for individual tax payers, 78.8 percent of the variation in tax compliance levels is explained by tax rates, compliance costs, nature of tax and enforcement instruments leaving 21.2 percent unexplained. This implies that tax rates, compliance costs, nature of tax and enforcement instruments positively impacted on the tax compliance level among individual tax payers. Results showed that for corporate tax payers, 37.6 percent of the variation in tax compliance levels is explained by tax rates, compliance costs, nature of tax and enforcement instruments leaving 62.4 percent unexplained. This means that other factors not studied contribute to 62.4% variation in tax compliance level among corporate tax payers in Kenya.

5.3 Conclusions

Overall, results indicate that tax compliance levels are influenced by tax rates, compliance costs, nature of tax and enforcement instruments. This study tested relationships developed out of the existing literature on the existing relationship between tax rates, compliance costs, nature of tax and enforcement instruments and tax compliance levels. Given the varying influence of these factors on individual and corporate tax payers, the study concludes that different factors have varying impact on tax compliance levels by individual tax payers and corporates.

It also emerged that the individual effects of these factors on tax compliance levels were significant. Moreover, it emerged that while enforcement instruments had a positive impact on tax compliance level among individual tax payers; it had a negative impact on tax compliance level among corporate tax payers. On the other hand, while tax rates, compliance costs, nature of tax and enforcement instruments positively impacted on the tax compliance level among individual tax payers these factors had a negative influence on tax compliance level among corporate tax payers.

5.4 Recommendations

From the findings, the study established that enforcement instruments had a positive impact on tax compliance level among individual tax payers while it had a negative impact on tax compliance level among corporate tax payers. Therefore the study recommends that the government needs to provide more incentives for tax compliance among the corporates to complement the existing enforcement instruments.

5.5 Areas for Further Research

Given that the study focused only registered tax payers within Nairobi County, the results may not apply all tax payers national wide due to contextual uniqueness. Thus the researcher recommends that a similar study be conducted on factors affecting tax compliance in more than one county for comparison of results. It is recommended that a similar study is done cutting across all counties cities so as to allow for broader generalization and comparison of findings.

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APPENDICES

Appendix I: Research Questionnaire for Individuals

This questionnaire is designed to collect information on the factors affecting tax compliance in compliance behaviour in Kenya: case of taxpayers in Nairobi County. The information obtained will only be used for academic purposes and shall be treated in utmost confidence. You are requested to complete this questionnaire as honestly and objectively as possible.

SECTION A: GENERAL INFORMATION

1. Name (Optional).....
2. PIN (Optional).....
3. Sex of the respondent:
 - a) Male
 - b) Female
4. Age of respondent
 - a) 29 years and below
 - b) 30-39 years
 - c) 40-49 years
 - d) 50 years and above
5. What is your highest level of Education?
 - a) PHD
 - b) Masters
 - c) Bachelors
 - d) Diploma
 - e) Certificate
 - f) Secondary
 - g) Primary
 - h) Other (please specify).....

6. What are your sources of income:
- a) Employment income ()
 - b) Business income ()
 - c) Others (Please specify).....
7. Employment terms:
- a) Permanent employment ()
 - b) Contractual employment ()
 - c) Self-employment ()
8. Does your business have a Personal Identification Number (PIN)? Yes () No ()
9. On average what is your annual income?
- a) Below Ksh 500, 000 ()
 - b) Between Ksh 500,001 and Ksh 1 Million ()
 - c) Between Ksh 1,000,001 and Ksh 2 Million ()
 - d) Between Ksh 2,000,001 and Ksh 3 Million ()
 - e) Over Ksh 3 Million
10. In your opinion, failure to pay taxes is;
- a) Wrong and punishable ()
 - b) Wrong but understandable ()
 - c) Not wrong at all ()
11. For how long have you been paying taxes?
- a) 1-5 years ()
 - b) 6-10 years ()
 - c) 11-15 years ()
 - d) Over 15 years ()

SECTION B: FACTORS INFLUENCING TAX COMPLIANCE

Tax Rates

1. Do you think the Kenyan tax rates are high? Yes () No ()
2. Do you think there are too many different forms of taxes in Kenya? Yes()No()
3. Is the amount payable in terms of taxes influencing your tax compliance?
Yes () No ()

Compliance Costs

4. On a five point likely scale where [1] = Not at all, [2] = Less extent, [3] = Someextent, [4] = Great extent, [5] =Very Great extent}, to what extent do the following expenses affect your tax compliance levels?

Aspect	5	4	3	2	1
Cost of Employing professional staff					
Software and Internet					
Tax registration process					
Actual payment of the taxes					
Maintenance of appropriate records					

Nature of Tax

5. On a five point likely scale where [1] = Not at all, [2] = Less extent, [3] = Someextent, [4] = Great extent, [5] =Very Great, indicate the extent to which each of the following affect your tax compliance levels?

Aspect	5	4	3	2	1
Frequency of filing the return					
How the tax is remitted i.e directly or indirectly					
Source of income from which the tax is based					
Ability of the revenue authority to access other information regarding your declaration					
Laws relating to taxation are easily interpreted					

Enforcement Instruments

6. On a five point likely scale where [1] = Not at all, [2] = Less extent, [3] = Some extent, [4] = Great extent, [5] = Very Great indicate the extent to which each of the following affect your tax compliance levels?

Aspect	5	4	3	2	1
Use of Information from third parties by KRA					
Taxes and fines levied by KRA					
Prompt audit and prosecution of tax offenders					
Ability of KRA to detect under-declarations in tax returns					
View of taxation as a civic duty					
How government uses the money collected from taxes levied					

SECTION C: TAX COMPLIANCE LEVEL IN KENYA

7. On a five point likely scale where [1] = Not at all, [2] = Less extent, [3] = Some extent, [4] = Great extent, [5] = Very Great, indicate the extent to which you adhere to the following tax compliance requirements.

Compliance requirement	5	4	3	2	1
Obtaining a personal identification number (PIN) when its due					
Accurate calculation of tax due					
Accurate and prompt declaration of tax due					
Filing of returns on income by the prescribed date					
Paying of tax dues by the prescribed date					
Payment of fines and penalties for overdue taxes					
Cooperation with KRA officers in conducting audits by providing all the necessary records					

THANK YOU FOR YOUR COOPERATION

Appendix II: Research Questionnaire for Corporates

This questionnaire is designed to collect information on the factors affecting tax compliance in compliance behaviour in Kenya: case of taxpayers in Nairobi County. The information obtained will only be used for academic purposes and shall be treated in utmost confidence. You are requested to complete this questionnaire as honestly and objectively as possible.

SECTION A: GENERAL INFORMATION

- 1. Name (Optional).....
- 2. PIN (Optional).....
- 3. Position in the organization
 - a) Business Owner ()
 - b) Managing Directors ()
 - c) Finance Managers ()
 - d) Accountant ()
 - e) Others (Specify).....
- 4. How long has the organization been in existence?
 - a) Less than One year ()
 - b) 1-5 Years ()
 - c) 6-10 Years ()
 - d) More than 10 Years ()
- 5. What is your main business activity?
 - a) Manufacturing ()
 - b) Service ()
 - c) Commercial ()
 - d) Others (Specify).....
- 6. Number of employees in the business?
 - a) Below 20 ()
 - b) Between 21 and 40 ()
 - c) Between 41 and 50 ()
 - d) Between 51 and 80 ()
 - e) Between 81 and 100 ()

7. In your opinion, failure to pay taxes is;
- a) Wrong and punishable ()
 - b) Wrong but understandable ()
 - c) Not wrong at all ()
8. On average what is your business annual turnover?
- a) Below Ksh 500, 000 ()
 - b) Between Ksh 500,001 and Ksh 1 Million ()
 - c) Between Ksh 1,000,001 and Ksh 2 Million ()
 - d) Between Ksh 2,000,001 and Ksh 3 Million ()
 - e) Over Ksh 3 million ()

SECTION B: FACTORS INFLUENCING TAX COMPLIANCE

Tax Rates

1. Do you think the Kenyan tax rates are high? Yes()No()
2. Do you think there are too many different forms of taxes in Kenya?
Yes () No()
3. Is the amount payable in terms of taxes influence your tax compliance?
Yes()No()

Compliance Costs

4. On a five point likely scale where [1] = Not at all, [2] = Less extent, [3] = Someextent, [4] = Great extent, [5] =Very Great extent}, to what extent do the following expenses affect your tax compliance levels?

Aspect	5	4	3	2	1
Cost of Employing professional staff					
Software and Internet					
Tax registration process					
Actual payment of the taxes					
Maintenance of appropriate records					

Nature of Tax

5. On a five point likely scale where [1] = Not at all, [2] = Less extent, [3] = Some extent, [4] = Great extent, [5] =Very Great indicate the extent to which each of the following affect your tax compliance levels?

Aspect	5	4	3	2	1
Frequency of filing the return					
How the tax is remitted i.e directly or indirectly					
Source of income from which the tax is based					
Ability of the revenue authority to access other information regarding your declaration					
Laws relating to taxation are easily interpreted					

Enforcement Instruments

6. On a five point likely scale where [1] = Not at all, [2] = Less extent, [3] = Some extent, [4] = Great extent, [5] =Very Great indicate the extent to which each of the following affect your tax compliance levels?

Aspect	5	4	3	2	1
Use of Information from third parties by KRA					
Taxes and fines levied by KRA					
Prompt audit and prosecution of tax offenders					
Ability of KRA to detect under-declarations in tax returns					
View of taxation as a civic duty					
How government uses the money collected from taxes levied					

SECTION C: TAX COMPLIANCE LEVEL IN KENYA

7. On a five point likely scale where [1] = Not at all, [2] = Less extent, [3] = Some extent, [4] = Great extent, [5] =Very Great, indicate the extent to which you adhere to the following tax compliance requirements.

Compliance requirement	5	4	3	2	1
Obtaining a personal identification number (PIN) when its due					
Accurate calculation of tax due					
Accurate and prompt declaration of tax due					
Filing of returns on income by the prescribed date					
Paying of tax dues by the prescribed date					
Payment of fines and penalties for overdue taxes					
Cooperation with KRA officers in conducting audits by providing all the necessary records					

THANKS FOR YOUR COOPERATION