

**DETERMINANTS OF CONSUMPTION TAX COMPLIANCE AMONG  
MICRO AND SMALL ENTERPRISES IN RUIRU TOWN**

**BY**

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## DECLARATION

I hereby declare that this project is my original work which has not been submitted to any other institution for academic purpose or any other reason.

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## **DEDICATION**

I dedicate this work to my late parents, my lovely wife and daughter for their support, motivation, encouragement and best wishes.

## **ACKNOWLEDGEMENT**

I acknowledge God for the gift of life, wisdom and time which has enabled me pursue my studies this far. I also appreciate my supervisor; Dr Bruce Ogaga and Dr. Jane Sang for their patience with me, guidance and their corrections and willingness to go the extra mile to help in developing and completing this project. I acknowledge my friends and colleagues for their positive critics which helped me to fine-tune the proposal and this final project. Special appreciation goes to my wife and daughter for allowing me the time to sit in class and conduct my research and complete the study project. I also wish to acknowledge JM and family for their support and motivation without which I would not have come this far in the academic journey. To all of you Thank you and God bless you.

## ABSTRACT

Micro and small enterprise sector is the largest employer in Kenya accounting for over 80% of all employment. The sector also contributes significant proportion of the national GDP estimated to be over 20%. However, tax revenue contribution from this sector is below expectation and accounts for less than 3% of all tax revenue collected. This study was conducted to establish the determinants of consumption tax compliance among micro and small enterprises in Ruiru town. The specific objectives of the study were to determine the effect of tax administration on consumption tax compliance among micro and small enterprises in Ruiru town, to establish the effect of the size of enterprises on consumption tax compliance among micro and small enterprises in Ruiru town and to determine the effect of taxpayer education on the level of consumption tax compliance among micro and small enterprises in Ruiru town. The study was founded on social contract and ability to pay theories which express tax as a contractual obligation payable according to taxable capacity of taxpayers. The study targeted micro and small enterprises in Ruiru town in Kiambu County and adopted an explanatory research design to understand what, why and by how much, aspects of micro and small enterprises determine consumption tax compliance among these enterprises. A pilot study was conducted in Juja town to test the validity and reliability of the research instruments that were used for the study. A structured questionnaire was used to collect primary data from a sample of 127 enterprises which were selected through random sampling from a population of 161 micro and small enterprises licensed by Ruiru Sub-county Business Licensing Department. The data collected was tested for validity and reliability and analyzed. Tax administrations, size of enterprise and taxpayer education were found to have significant effect on consumption tax compliance with  $p < 0.05$  for all the variables. Tax administration was found to have a Beta coefficient of 0.363, 0.223 for size of enterprise and 0.636 for taxpayer education against consumption tax compliance respectively. The independent variables were found to cause 36.9% change of compliance tax compliance when combined with R Square of 0.369 at  $p < 0.05$ . Multiple regression analysis was performed and yielded the regression equation of the study. The study then made conclusions on tax administration, Size of the enterprise and taxpayer education that all the independent variables were found to play a significant role in the consumption tax compliance among micro and small enterprises in Ruiru town. The study found that tax compliance checks and tax audits have a significant effect on consumption tax compliance and recommended that KRA should employ qualified staff who will be able to conduct comprehensive tax audits and those found to be non-compliant should be encouraged and assisted where necessary. The study also recommended that KRA should simplify the procedures and processes involved in filing of returns and payment of taxes and make them understandable and executable by all taxpayers including those without special expertise. The study also recommended enhancement of taxpayer education through incorporating it as a subject in school curriculum from lower levels of education. Tax seminars should be made more frequent, free of charge and open for all and properly publicized to reach more people. It was also recommended that KRA focus on all enterprises irrespective of their size to promote tax compliance for all enterprises.

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**ABBREVIATIONS AND ACRONYMS**

<b>APT</b>	:	Automated Payment Transaction
<b>CBK</b>	:	Central Bank of Kenya
<b>GDP</b>	:	Gross Domestic Product
<b>IMF</b>	:	International Monetary Fund
<b>KNBS</b>	:	Kenya National Bureau of Statistics
<b>KRA</b>	:	Kenya Revenue Authority
<b>LTU</b>	:	Large Taxpayers Unit
<b>OECD</b>	:	Organization for Economic Cooperation and Development
<b>MSEs</b>	:	Micro and Small Enterprises
<b>MSMEs</b>	:	Micro, Small and Medium Enterprises
<b>TOT</b>	:	Turn-over Tax
<b>UNDP</b>	:	United Nations Develop Program
<b>VAT</b>	:	Value Added Tax

## DEFINITION OF TERMS

**Consumption tax** – Refers to tax charged on the basis of consumption rather than other the taxpayers' ability to pay such as Value added Tax, excise duty and retail sales tax (OECD (2018)).

**Micro and Small enterprise (MSE)** - There is no universal definition of MSE and therefore definitions are country-specific (OECD 2005). In Kenya, a micro enterprise means an enterprise with between 1 and 9 employees or a turnover of less than ksh. 500,000 while a small enterprise means an enterprise with between 10 and 50 employees or turn-over between ksh 500,000 and ksh 5 million (Micro and Small enterprises Act 2012).

**Tax administration** – Is the process of implementing and enforcing tax laws and regulations encompassing of recruitment and registration of taxpayers, enabling income declaration and filing of tax, checking for accuracy and completeness of tax returns filed by taxpayers Alink and Kommer (2016)

**Tax compliance** - This is the willingness of a person to voluntarily register as a taxpayer to declaring income through filing a return, and subsequently paying all the taxes due and in a timely manner (Kirchler, 2007). It also refers to the reduction of the tax gap between theoretical revenue and the actual revenue New Zealand Inland Revenue Department (1997).

**Taxpayer education** – This refers to the process of instilling norms and values which correlate positively with tax compliance (Mascagni and Santoro 2018) through programs and initiatives aimed at creating awareness about taxes, why taxes are paid, how and when to pay taxes (Gitaru, 2017).

**Tax reforms:** These are initiatives by tax administrations to ensure efficiency accountability predictability, certainty and transparency in tax administration and tackle tax evasion and avoidance schemes (OECD 2018).

## **CHAPTER ONE**

### **INTRODUCTION**

This chapter logically introduces and presents the background of the study, the problem statement, objectives of the study, research hypotheses, and significance of the study and the scope of the study.

#### **1.1 Background of the Study**

Taxes are the main source of revenue to finance public expenditure. Tax authorities administer various taxes such as income, excise and consumption tax (Marples & Stupak, 2016). Consumption taxes are among the most productive and accounted for over 20% of all tax revenue globally in 2012 (OECD, 2014). More than 120 countries subscribe to one or more forms of consumption taxes such as Value Added Tax (VAT), National Sales Tax (NST), Turn-over Tax (TOT), presumptive tax and excise taxes ((OECD, 2014). Consumption taxes, if properly administered causes minimal economic distortion and have the potential to raise sufficient tax revenue for the government (Garner, 2005). This potential remains untapped due to high levels of tax non-compliance in many countries.

Non-compliance with tax laws has become a serious challenge both in the first world and the less developed countries (LDCs) (Awang *et al.*, 2018; Alasfour, 2017). IMF (2017) noted that VAT gap in Europe was as high as 20% and an average of 30% in South America and 41% in Pakistan. Africa and other developing countries experience constant and persistent tax non-compliance (Merima et al, 2013) and with a low tax to GDP ratio of about 20% Brahimia & Gandhi (2018). Statistics indicate that South Africa has the lowest consumption tax non-compliance rate at 10% while Uganda has the highest non-compliance at about 50% and Nigeria loses \$46.9 billion

in tax gaps (IMF 2017). On average, consumption tax gap in sub-Saharan Africa is about 40% (Faridy, 2011). Kenya on her part has been experiencing consistent tax deficits over the years forcing her to incur debt to finance her budget. KNBS (2017) recorded that there were 15.1 million people in employment in 2016. However Kenya Revenue Authority database had 8.1 million registered taxpayers but only 2.9 million were active representing only 36% and only 20% were tax compliant.

While the challenge is global, there are different causes for different countries. In many cases, tax compliance and non-compliance is thought to be caused by various factors such as personal decision, political, legal and administrative actors (Lederman, 2003). This argument was supported by Fagbemi, Uadile & Noah (2010) who viewed non-compliance to be a product of decisions by lawmakers and taxpayers actions. Unfortunately, despite the challenge being more prevalent in developing economies, little has been done to deal with tax non-compliance (Asrinanda, 2018). Many tax authorities in developed countries claim it is not an easy to persuade taxpayers to strictly comply with tax requirements despite some of the tax laws not being precise (James & Alley (2014).

The global economic crisis in 2008 was a wakeup call for tax authorities to reduce tax gaps which was thought to be one of the causes of the crisis in Europe Violeta and Austėja (2016). However, despite the effort by many tax authorities and the tax reforms initiated, the level of compliance is still low in many countries. This is partly because despite many empirical studies on this area, there is lack of consensus as to what influences voluntary tax compliance among taxpayers (Randlane, 2016).The greatest cause of tax non-compliance in many countries is the dominance of the informal sector mostly comprised of micro and small enterprises (Masarirambi, 2013).



The number, distribution and the model of the enterprises in this sector, makes it costly and uneconomical in revenue collection by tax administration (Joshi et al., 2014).

The size of these enterprises and the challenges they face hinder their tax compliance adversely affecting tax revenue performance (Friedman, 2015). Economic survey of 2017 indicates existence of 7.4 million micro, small and medium enterprises in Kenya with 5.5 million being micro and small enterprises.

There is no specific definition as to what a micro and small enterprise is but each country has the power to set its own definitions (Ayyagari, Thorsten and Kunt 2005). World Bank defines a small enterprise as that which has up to 50 employees and an annual turn-over of up to \$3 million (World Bank 2005). Different countries adopt different definitions and in many cases there is no distinction between a micro and a small enterprise. In this case enterprises are categorized as small, medium or large. For instance Canada defines a small business as one that has fewer than 100 employees for goods producing enterprise or less than 50 employees for a service based business. It also defines a small enterprise as any business establishment that records an annual gross turnover below \$50 million. Germany defines small enterprises as those that have a limit of 250 employees, while, in Belgium small enterprises have a limit of 100 employees. A small in New-Zealand, business is one that has a maximum of 19 employees while in The United States (U.S.A), a small business refers to that with fewer than 100 employees. In South Africa, a microenterprise is one with up to 5 employees and a turnover of less than R0.2 million while a small enterprise is one with between 6 and 50 employees and a turn-over of between R0.2 and R6 million. Uganda define microenterprise as an enterprise with

between 1 and 4 employees and a turn-over of less than Ush 10 million while a small enterprise is one with between 10 and 50 employees and a turn-over of between Ush 10 and 50 million.

In the Kenyan context, enterprises are categorized as micro, small, medium or large enterprise depending on their annual turn-over and the number of persons working in the enterprise. Micro and Small Enterprises Act 2012 defines a micro enterprise as one with up to 9 employees and annual turn-over of less than ksh 500,000 while a small enterprise is one with between 10 and 49 employees and annual turn-over of between ksh 500,000 and 5 million (Micro and Small Enterprises Act 2012) The Act, further groups enterprises depending on their capital investments based on their industry of operation. On this basis, a manufacturing enterprise with an investment in plant and machinery or registered capital which does not exceed ksh 10 million is a micro enterprise while one with between ksh 10 to 50 million is a small enterprise. For service and farming enterprises, a micro enterprise is one whose investment in equipment and capital does not exceed ksh 5 million while a small enterprise has between ksh 5 and 20 million investment in equipment and capital (Micro and Small Enterprises Act 2012).

Micro and small enterprises are considered to be labor intensive and therefore have the highest potential to create employment and alleviate poverty, (World Bank 2005, and OCDE 2014). Their contribution in each country varies significantly. For instance, some countries like Ukraine, Azerbaijan and Belarus have only about 5.5% of their formal work force working in small and medium sized firms while over 80% of the workforce in is employed by this sector (OECD 2014). Studies also reveal the significance of this sector in the developed nations and especially in creation of new jobs (Ayansola & Houghton, 2017). In United States, the sector contributes 52% of all

employment and 51% of the total national income (Longenecker et al., 2012). In the Republic of China, they account for 60% of GDP and 80% of employment (Sham, 2014). They also account for 62%, 79% and 63 % employment and 25%, 47% and 38% of GDP in UK, Germany and France respectively (Burns, 2001). The contribution of the sector to the global GDP has been on a steady upward trajectory since 1993 when it contributed about 13 percent to an average of 25 percent for the four years preceding 2015 (UNDP 2016).

Micro and small enterprises play a key role in African economies by facilitating growth, development and creation of employment. Statistics indicate that these enterprises account for over 50 per cent the total GDP and absorb about 60 per cent of all the workforce in majority of the African and other developing nations (Muriithi, 2017). Many are involved in both retail and wholesale trade, manufacturing and agricultural sectors leading to sustainable economic growth.

Most businesses in Kenya fall under the micro and small enterprises category and contribute over 20% of the GDP (KNBS Economic survey 2012). They are the largest employer in Kenya accounting for 82.7 percent of all employment (KNBS 2014). Statistics indicate that employment in this sector has been growing and increased from 13.5 million in 2013 to 14.3 million in 2014 (KNBS Economic survey 2014, Kenya Bankers Association 2016 Thomas Ngui, 2014). These statistics have created a worldwide recognition of the MSEs as important economic players who should be considered in economic policy formulation. This study focused on the determinants of consumption tax compliance among micro and small enterprises in Ruiru town.

## 1.2 Problem Statement

Micro and small enterprises contribute significantly to the global economy and especially in creation of new jobs (Ahmad, Abdul & Shamsiah 2018). In United States, the sector contributes 52% of all employment and 51% of the total GDP (Longenecker et al., 2012). In the Republic of China, they account for 60% of GDP and 80% of employment (Sham, 2014). They also account for 62%, 79% and 63 % employment and 25%, 47% and 38% of GDP in UK, Germany and France respectively (Burns, 2001). In Africa, Micro and small enterprises contribute up to 60% of all employment and an average of 40% of national income (GDP), (World Bank 2016). In Kenya, micro and small enterprises contribute over 20% of the GDP and 14.3 million employment opportunities accounting for 82.7 percent of all employment (KNBS Economic survey 2017, World Bank 2018). This is a clear indication of the massive size of the sector and it would be expected to yield tax revenue in equal measure.

However, despite the significant size of micro and small enterprise sector in Kenya, its contribution to tax revenue remains very low and accounts for less than 1% of the total tax revenue collected.

Total tax revenue in 2016/2017 fiscal year amounted to ksh 1.365 trillion and ksh 1.44 trillion in 2017/2018 fiscal year (KRA 2019 and OECD.stat 2019). Out of the total tax revenue collected, TOT amounted to ksh 385 million in 2016/2017 fiscal year and ksh 397 million for the fiscal year 2017/2018 (KRA reports). This represents 0.28% in 2016/2017 and 0.28% in 2017/2018. This is an indication of very low levels of consumption tax compliance among micro and small enterprises. This is despite the policies established to stimulate growth and success of the MSE sector in Kenya

through establishment of favorable policies and partnering with financiers (Kenya Bankers Association 2016).

Non-compliance with tax laws has become a serious challenge globally and all countries irrespective of their economic status (Awang *et al.*, 2018; Alasfour, 2017). Unfortunately, despite the challenge being more prevalent in developing economies, little has been done to deal with tax non-compliance (Asrinanda, 2018). This is because despite many empirical studies on this area, there is lack of consensus as to what influences voluntary tax compliance among taxpayers (Randlane, 2016). This study was conducted to establish the determinants of consumption tax compliance among micro and small enterprises in Ruiru town. This outcome of this will help to raise awareness of the key areas that Kenya Revenue Authority should focus on in policy formulation with the aim of raising more tax revenue from this sector. It also highlighted managerial issues of concern in tax administration among micro and small enterprises.

### **1.3 General Objective**

The main objective of the study was to establish the determinants of consumption tax compliance among micro and small enterprises in Ruiru town.

#### **1.3.1 Specific objectives**

- i. To ascertain the effect of tax administration on consumption tax compliance among micro and small enterprises in Ruiru town.
- ii. To determine the effect of the size of enterprises on consumption tax compliance among micro and small enterprises in Ruiru town.
- iii. To establish the effect of taxpayer education on consumption tax compliance among micro and small enterprises in Ruiru town.

#### **1.4 Research Hypotheses**

**H<sub>0</sub>1:** Tax administration has no significant effect in promoting consumption tax compliance among micro and small enterprises in Ruiru town.

**H<sub>0</sub>2:** The size of enterprises has no significant effect on consumption tax compliance among micro and small enterprises in Ruiru town.

**H<sub>0</sub>3:** Taxpayer education has no significant effect on consumption tax compliance among micro and small enterprises in Ruiru town.

#### **1.5 Significance of the study**

While the impact of too much debt can be detrimental to the economy, overtaxing the micro and small enterprises to raise more revenue may lead to closure of many of them and slowed development. It is therefore paramount to understand the areas which the tax authority should focus on to raise more revenue from this volatile sector. The study established the determinants of compliance with consumption tax laws in the MSE sector. The results of the study brought to light the factors which should inform policy decisions to enhance performance of consumption tax revenue from micro and small enterprises. In addition, it highlight the key areas which need further research in future and it has created a motivation to expand the body of knowledge with regard to taxation of micro and small enterprises. It has also highlight managerial issues of concern in tax administration for micro and small enterprises should be addressed to ensure consumption tax compliance these enterprises.

#### **1.6 Scope of the study**

The study was conducted in Ruiru town and focused on micro and small enterprises licensed by Business Licensing Department in Ruiru sub-county. The town is 21km from Nairobi CBD and connected to Nairobi through the Railway, Thika

Superhighway and also from Kiambu Road, Northern and Eastern Bypasses. There are many industries located in Ruiru giving rise to many enterprises. The data from Business Licensing Department in Ruiru sub-county indicate that there were 161 licensed micro and small enterprises as at the year 2017. The study considered three key determinants of consumption tax compliance among micro and small enterprises which are tax administration, size of enterprises and taxpayer education. The study covered the period between 2016/2017 and 2017/2018 financial years.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter reviewed theories that formed the basis and foundation of the study. These theories explain the rationale for taxation and who should pay taxes. The chapter also reviewed empirical literature of other similar studies done in the past.

#### **2.1 Conceptual Review**

##### **2.1.1 Consumption tax compliance**

Consumption tax is an indirect form of tax charged on the basis amount of goods and services consumed. Metcalf (2016) defines consumption tax as tax charged on the amount of money spent by the taxpayer without considering the taxpayer's income level like in income tax. Unlike in other taxes, consumption tax liability is dependent on the total amount paid for goods and services and the most common designs include value added tax (VAT), a national sales tax (NST), and a consumed-income tax Donald and Jeffrey (2016).

Consumption tax charged on enterprises is passed on to be borne by the final consumers through higher prices. OECD (2018) identifies Value Added Tax; also referred to as Goods and Services Tax (VAT/GST), excise duty and retail sales tax as the main consumption taxes. Consumption taxes are indirect taxes charged as specific tax like in the case of VAT and Turn-over Tax or ad-valorem based on value like in excise Michael Keen (1998). In both cases, the consumption tax is collected as an addition on the price of the commodity and submitted to the Revenue Authority. Some countries like USA subscribe to retail sales tax as the main consumption tax (OECD 2019) while others like Kenya use VAT as the main consumption tax supplemented by turn-over tax and excise duty. Section 34 of the VAT Act 2013



directs that a taxpayer trading in vat-able supplies and whose turnover is ksh 5 million and above should register for VAT while those traders whose turnover is less than ksh 5million but over 0.5million are subject to turn-over tax as their consumption tax. However some voluntarily choose to register for VAT.

Tax compliance is the reduction of the tax gap between theoretical revenue and the actual revenue New Zealand Inland Revenue Department (1997). Andreoni, Erard and Feinstein (1998) introduce time as an important aspect of compliance. US legal.com explains tax compliance by way of the degree to which a taxpayer conforms with tax laws with respect to income declaration, return filing and timely payment of tax due. Lederman (2003) define consumption tax compliance as the difference between total adherence to consumption tax laws and the observed adherence to the tax laws. Tax compliance is measured through filing of returns, reporting correct income and correct deductions and paying all the tax due Lederman (2003)

### **2.1.2 Tax Administration**

Tax administration is the process of executing and enforcing tax laws and regulations comprising of recruitment and registration of taxpayers, facilitation of income declaration and filing of tax, checking for accuracy and completeness of tax returns filed by taxpayers among others, Alink and Kommer (2016). They argue that due to the changing nature of the societies, in which they operate, and the increasing demand and expectations from various stakeholders, tax authorities have to develop adequate administrative, legal and operational structures. Tax administration is fulfilled by monitoring compliance through compliance checks and tax audits which involve verification of income and expenses declared and issuing additional assessments where necessary Arturo Jacobs (2013).

Anthony and Pellechio (1995) note that for successful tax administration there must be adequate political commitment, well trained staff who are properly motivated, relevant structures and strategy and taxpayers must be provided with incentives. Tax audits and compliance checks are an important component of tax administration. Their success depends on the training of the tax officers involved and having the necessary legal backing.

Measures are always put in place and laws and regulations made to ensure that the tax administration system is efficient (Enahoro & Olabisi, 2012). This has been done through tax reforms geared towards establishing clear and certain legal framework and simplification of procedures through automation. This followed the fiscal crises which hit many African countries and necessitated tax reforms as part of structural reform programs (Fjeldstad and Rakner, 2003).

In Kenya, these reforms are instituted through formulation and review of tax laws and adoption of technology in operations through automation. KRA has on various occasions reviewed its laws and regulations which facilitate collection of tax revenue especially among micro and small enterprises. Reforms in respect of consumption taxes in Kenya started with the introduction of Value Added Tax as a replacement of the sales tax. VAT was further reviewed in 2008 to introduce Turn-over Tax which was a form of presumptive tax to incorporate the previously untaxed firms in the tax system. The turn-over tax was specifically tailored for micro and small businesses whose turn-over fall below Kshs 5 million per year. Despite these measures, ToT was found not to achieve the expected objectives and was further reviewed and replaced with presumptive tax with effect from 1<sup>st</sup> January 2019. A further review of administration of presumptive tax led to reintroduction of Turn-over Tax through the finance bill of 2019. All these reviews have been made to ensure that micro, small and

medium enterprises contribute to tax revenue in Kenya by making it simple for them to comply with tax laws.

Kenya Revenue Authority has also automated most of its operations to be able to serve taxpayers better and monitor their compliance. Automation is the use of technology where a process or procedure is accomplished without human assistance (Groover, 2008). Over- time KRA has continuously reviewed and upgraded its systems with the latest technologies making it simpler and quicker for taxpayers to register, file their returns and pay taxes. KRA has reorganized its functions with technology to help taxpayers perform online self-assessment rather than going to KRA offices. The current system; i-tax has saved the time spent in complying with tax laws and has facilitated many micro and small enterprise owners to register as taxpayers.

With clear laws and automated systems, the authority is able to establish with certainty who is liable to pay tax, how much and when such tax is expected or should have been paid. With this information the authority can carry out compliance checks and audit taxpayers' accounts to determine the correctness and accuracy of tax returns filed by taxpayers. Tax administration was quantified through tax audits and tax compliance checks conducted on the enterprises and the enterprise owners by the tax authority in Kenya.

### **2.1.3 Size of micro and small enterprises**

The definition adopted by OECD to ensure comparability is that microenterprises are those that have between 1 and 9 employees while small enterprise is that with 10 to 49 employees OECD (2017). OECD emphasize on the role played by small enterprises in all member countries making up to 95% of all enterprises and contributing 70 per cent

of all jobs, and between 50 and 60 percent of Value addition and 33 percent of the total GDP in these countries (OECD 2016). The definition adopted by World Bank (2005) is based on the number of employees and the annual turn-over of the enterprise where a small enterprise is one that has up to 50 employees and an annual turn-over of up to \$3 million.

In most developing countries in Africa and Middle East, the definition adopted by OECD is used in distinguishing the enterprises. Micro and small enterprises in these regions explain about 60% of all employment and an average of 40% of national income (GDP), (World Bank 2016).

In Kenya, the size of an enterprise is distinguished by the number of employees, the revenue generated by the enterprise and the size of capital investment. An enterprise with between 1 and 9 employees or a turnover of less than ksh 500,000 is considered as a microenterprise while an enterprise with between 10 and 50 employees or turnover between ksh 500,000 and ksh 5 million is a small enterprise (Micro and Small enterprises Act 2012). The MSE sector in Kenya currently contributes about 30% of the national GDP annually and account for 3 percent of the national GDP growth (KNBS, 2017). This sector has experienced tremendous growth from 3.2 million employees 18 percent contribution to GDP in 2003 to 14.3 million and 20% respectively in 2014 (World Bank 2016). This represents over 300% growth in the number of people employed and about 10% in GDP contribution. The size of enterprises in the study was determined by the size of the workforce in the enterprises and the annual turn-over of the enterprises as formulated by Micro and Small Enterprises Act 2012.

#### **2.1.4 Taxpayer education**

Taxpayer education refer to the initiatives adopted to impart knowledge in taxpayer with respect to procedures and processes of paying tax, tax rates, when to pay taxes, the importance of paying taxes and enlightenment on fairness and accountability in utilization of the tax revenue collected Mascagni and Santoro (2018). The driving force of taxpayer education is to a positive perception in the mind of the taxpayers by assuring them of the dedication of the state to the common good. It also focuses on creating awareness about the importance of paying tax to finance public spending and in what way the revenues collected are utilized (OECD 2015). Taxpayer education comprise of programs prepared by the Revenue Authority with the aim of creating awareness among taxpayers about their tax rights, and obligations with regard to tax laws (Gitaru, 2017). Effective taxpayer education ought to demonstrate to taxpayers how to pay taxes, to enlighten on why taxes need to be paid besides encouraging them to take part in deliberations leading to decisions on the use of tax revenue and demanding for accountability from the state (OECD 2013). KRA engage in various approaches to educate the public such as tax seminars, publication materials, TV, radio, newspapers, social media, schools, and community and through cultural activities. The study quantified tax education by the number and frequency of tax seminars, number of adverts in the media among others.

#### **2.2 Theoretical Review**

Taxation is based on theories which indicate the criterion for charging tax on taxpayers, who should pay tax, how such tax should be paid and to whom it should be paid. This study is anchored on Social contract theory and the ability to pay theory; which answer the question of why it is necessary to pay tax and how that tax should be paid by who and to whom it should be paid.

### **2.2.1 Social contract theory**

Social contract theory was advanced by John Locke (1632-1704) to explain the need for government and the relationship between the government and the citizens. In a natural and just set-up, people would seek to follow the principle of reason and act rationally. But there always exist the problem of uncertainty and lack of mechanisms to solve disputes leading to an anarchic state of nature. To solve the problem, people set up a government as an institution to make and enforce laws leading to a social contract. The theory emphasize on the rights and obligations of everyone in the society. The main responsibility of the government is to protect the rights and the freedoms of the citizens while citizens commit to obey the government and contribute money to be used by the government in performing its duties. Social contract theory is relevant and applicable to modern society. While economists take different approach to this theory, they all agree on the fundamental principle of the contractual relationship between the government and its subjects (Scanlon 2013). For instance, Gauthier (1986) argue that the theory, like theory of morals cannot serve any function unless it is approved by each person's reason based on a contractual relationship while Weithman, (2010) view the successful application of the theory on the basis of fairness and justice founded on political liberalism. Latest developments of social contract have adopted dynamic evolutionary approaches and incorporated the theory in shaping bargaining models (Skyrms 2014 Muldoon 2017).

Citizens pay taxes to the government and expect to receive services and social amenities from the government. Disappointment and frustrations among citizens result when the government fails to provide such amenities and opportunities for them to live comfortably and such government is voted out through balloting. All enterprises irrespective of their size have an obligation to pay taxes to the government

since this is not voluntary but compulsory as a requirement of the social contract. Compliance with tax laws ensures that citizens pay tax to the government to enable it provide such services. KRA should educate the taxpayers about the contractual relationship between them and the government through taxpayer education to sensitize them on why they should pay taxes. The foregoing portrays the importance of social contract theory as a foundation for taxation.

### **2.2.2 The Ability-to-Pay Theory of Taxation**

Governments impose taxes to raise funds to finance their operations. But not every person in the economy pays tax because some do not have any income from which to pay the taxes. The theory was advanced by **Arthur Pigou** in 1939 and forms the basis upon which to determine how much each person should pay in taxes. This theory was developed in support of proportional tax system where those who earn more should contribute more as tax as envisaged by Adam Smith (Chodorow, 2008). It forms the principle that, persons ought to pay taxes to the government subject to their capacity to pay (Batt, 2012). The theory views tax as a sacrifice made by taxpayers and advocates for equal sacrifice among taxpayers. The theory has led to different interpretations of equity in taxation; equal absolute for all taxpayers, equal proportional sacrifice and equal marginal sacrifice Clara HeinOnline (2016). The Ability to pay theory is widely acknowledged as an independent source of tax law and applied as a parameter for designing fair tax systems in most countries especially in the European Union, Clara Maria (2015).

Issues of concern however arise in determination of how to measure the taxable capacity of a person in order to determine such sacrifice (Rai, 2004). Divergent views as to how to measure the taxable capacity of a person have developed over-time. However, the common measures of taxable capacity proposed by different economists

are; ownership of property, income level and expenditure (Chigbu, Eze & Ebimobowei, 2012, Zhou & Madhikeni, 2013). Further development on measures of taxable capacity has been proposed where family and personal conditions are considered in determining taxable capacity, Clara Maria (2015).

Based on the measures of taxable capacity as identified by (Chigbu, Eze & Ebimobowei, 2012, Zhou & Madhikeni, 2013), the study chose to determine the size of enterprises on the basis of their income and capital ownership which in turn measure their taxable capacity which was then used to determine whether they are compliant or not.

All the micro and small enterprises owners should pay their rightful share of tax according to their ability to facilitate the government in provision of public goods and services. The enterprises are categorized on the basis of their income and capital investment which constitute ownership of property. It is therefore expected that those enterprises with higher turn-over and high capital investment should contribute more in tax revenue.

## **2.3 Empirical Literature Review**

### **2.3.1 Tax administration and consumption tax compliance**

OECD advocates for simplicity, certainty, efficiency and effectiveness of tax systems. This has motivated governments to actively embark on reform and modernization of their tax systems to enhance simplicity, efficiency and effectiveness with the aim of capturing more taxpayers and collecting more revenue. Various studies have been done to establish successful tax administration in achieving the objective of maximum revenue collection.



Matthijs Alink, Victor van Kommer (2016) argued that tax administration played a great role not only in detecting tax evaders but ensuring that those who file pay the correct amount of taxes. They highlighted that tax administration should include registration of taxpayers and ensuring compliance through tax compliance checks and tax audits. They recommended that tax authorities should have power to assess and enforce debt collection and to prosecute tax fraud.

Keen and Slemrod (2017) studied on optimal tax administration and noted that improved and efficient tax administration has the potential to lower the elasticity of taxable income by making it very costly enterprise owners to conceal the income. They however noted that with greater tax administration many enterprises are likely to be more reactive if tax rates are varied in which case they may only pay a portion of the tax due. They advocated for tax authorities to establish an optimal tax administration in which promote compliance without motivating taxpayers to devise ways to conceal income.

Enahoro *et al* (2012) while studying tax administration in Nigeria expressed that tax administration ought to be efficient in ensuring high compliance rates among taxpayers with minimal costs. They opined that this calls frequent and constant monitoring and strong technical capacity and properly designed tax system and tax policies. They advocated for simplification of procedures and processes that facilitate compliance and formulation of laws to curb emerging tax evasion schemes.

Nahida Fariday (2017) studied on complexities and compliance costs among small and medium enterprises in Bangladesh and found that costs associated with tax compliance play a lesser role in promoting compliance as compared to tax audits

penalties and sanctions for non-compliance. He emphasized on the need for frequent tax audits with the view of increasing voluntary tax compliance.

Jean and Stern (2006) conducted a study on Introduction of the organizational concept of a large taxpayers' unit (LTU) as enhancing processes and procedures of tax administration. They concluded that grouping of taxpayers into defined specialized functional categories improve the efficiency and effectiveness of tax administration. Segmental organization where the small, the medium and the large taxpayers are served by different specialized units which focus on specific needs for the particular category of taxpayers and besides offering personalized services as part of tax reforms have the potential to reward tax collection from micro and small enterprises and the informal sector IMF, (2011) and McCarten (2005). This is so because the authority is able to monitor compliance of every taxpayer and can easily select taxpayers to be audited. Chatib, Rema, Olken, (2020) studied on the implication of taxpayer grouping in Indonesia and noted that the introduction of medium taxpayers' office (MTOs). It was noted that tax revenue collected had increased tremendously. At the same time, it was observed that even though administration costs had increased, the increase was negligible compared to the increase in revenue collected.

Ayodeji (2014) highlighted shortage of qualified and competent tax auditors among revenue authorities' staff as one of the key challenges. He noted that some authorities lacked trained and qualified tax personnel to carry out proper tax audits and this led to dismal performance of the authorities in revenue collection. However, Ariyo (1997) noted that dismal performance of revenue authority was as a result of apathy among taxpayers due to perceived discriminative laws which appeared to favor wealthy individuals. He recommended adoption of reforms that would lead to review of laws

to ensure equity, and introduce mechanisms to ensure that every taxpayer paid the correct amount of tax. This would result in creation of a strong, efficient and effective tax administration to assess and collect tax revenue to fund public expenditure. Nonetheless, having well and capable tax policy and tax administration would encourage tax compliance hence curb tax evasion

Aksnes (2011) identified complexities of tax laws as one of the key factors that led to non-compliance by taxpayers and low revenue collection among micro and small enterprises. He emphasized on the need for reform and simplification of the tax system and educating the public about tax procedures.

Prieto, Rodríguez and Salas (2003) analyzed tax reforms with bias to tax systems and tax structures. They noted that reforms involved moving towards flattening the income tax structures and there was a general trend towards graduated tax rates with personal allowance and moving away from the progressive tax rates. It was noted that this would achieve efficiency and tax compliance among small enterprise owners

Masese, (2011) studied on the benefit of automation in revenue collection. He identified automation as an important component of tax reforms which should be encouraged for all revenue administrations. He noted that automation reduces the cost of collecting tax revenue and tax administrators are able to monitor compliance of tax laws by taxpayers. His study brought to light the aspect of tax audit and compliance checks through the automated system. He also noted that automation reduces the interaction between the revenue authority staff and the taxpayers and this eliminates the chances of collusion and corruption. This increases the amount of revenue collected from the taxpayers.

Edgar Feige (2017) recommended adoption of APT tax scheme which would help in automatic assessment of tax. He noted that just as the credit card companies and stock brokers automatically collect their fees and commission for facilitating transactions, revenue authorities should similarly automate their systems such that transactions are assessed for tax and the tax revenue is automatically transferred to the government immediately payment is made. This would improve efficiency and simplification of tax procedures and reduce administrative cost significantly.

### **2.3.2 Size of enterprises and consumption tax compliance**

Nahida Fariday (2017) noted that small enterprises are more affected by complexities of tax laws and don't afford to hire professionals to help them. Large enterprises on the other hand have resources to deal with the complexities by hiring experts. Small enterprises are therefore less compliant than large enterprises which are able to spread the compliance costs across large-scale operations.

McKenzie and Woodruff (2006) studied the significance of growth of firms to tax revenue in Mexico. They noted that growth of enterprises in terms of the workforce or number of outlets does not necessarily signify increase in firms' revenue. They argued that small enterprise owners are motivated to formalize their enterprises and register them formally by the benefits of formalization with medium enterprises experiencing the largest benefits. They argue that there is no real change in size of the enterprise since their revenue per unit remains relatively the same despite their formalization. However, Eugene et al (2017) studied on the size of small and medium enterprise and their impact on taxation. They noted that growth of a small enterprise result in complexities which pose a distortionary effect. They noted that as the enterprises grow, they devise strategies to avoid and evade taxes by venturing in to business lines

which have lower or no tax burden. This leads to lower tax revenue being collected from the enterprises despite their growth and expansion.

Smulders et al, (2012) conducted a study on tax compliance among small businesses in South Africa. The study found out that the level of compliance among the small enterprises had a positive relationship with their size. The results showed that very enterprises small found it too costly to comply. The study found such compliance costs and accounting costs to be regressive with the size of the enterprise with small enterprises bearing a heavier burden. They found out that the level of compliance among the small enterprises had a positive relationship with their size. The results showed that very enterprises small found it too costly to comply. The study found such compliance costs and accounting costs to be regressive with the size of the enterprise with small enterprises bearing a heavier burden.

A study by Bird and Wallace (2003) found that the Revenue Authorities in many developing countries focus on raising revenue from the larger enterprises which have potential of higher revenue. They argue that this has generally left out the small enterprises out of the tax net and therefore they remain non-compliant.

### **2.3.3 Taxpayer education on consumption tax compliance among MSEs**

OECD's (2013) studied on factors influencing taxpayer morale and identified taxpayer education and tax knowledge as one of the key factors. It was noted that awareness of taxpayer responsibility and how the tax revenues are used among taxpayers would motivate them to pay their taxes.

Mascagni and Santoro (2018) identify taxpayer education as a key factor in bridging tax gaps in Africa. They urge tax Authorities to do more to increase taxpayers' knowledge and create awareness on the need for them to pay tax. They noted that in

Africa, taxpayer education initiatives are conducted through seminars aimed at specific taxpayers mostly newly recruited taxpayers, TV and radio programs. They recommended that tax authority follow up on tax seminars to ensure compliance and introduce tax education in schools.

Isbell (2017) studied on tax knowledge among taxpayers and business associations. They noted that majority of taxpayers lacked tax knowledge and this challenge was more pronounced among small taxpayers than among large taxpayers. He argued that tax knowledge was a key factor in promoting tax compliance. They highlighted lack of tax education greatly limited voluntary tax compliance among small enterprise owners.

Palil and Mustopha (2011) conducted a study on taxpayer education in Malaysia and New Zealand. They concluded that taxpayer education builds trust in the tax authority and creates a perception of fairness which promotes compliance among taxpayers. They argued that taxpayers need to feel that they are treated in a just manner and with respect which can be instilled through tax education.

Jagongo and Kimaru (2014) conducted a study on turn-over-tax among SMEs in Gikomba market, Nairobi. They noted that many of the enterprise owners did not have sufficient knowledge about tax and did not have any knowledge that KRA conducts any training. It was noted that tax awareness is created through seminars, using local media stations, mobile tax clinics and public barazas. Tax payers are taught how to determine their tax liability, how to file their returns and how to pay their tax liability.

Jean, (2009) studied on the impact of taxpayer education on tax compliance. It was observed that lack of training initiatives had led to low compliance levels and thus

low tax revenue collected. The study had indicated that the requirement to pay taxes through the banks had made taxpayers unwilling to comply with tax policies. Jean recommended the introduction of taxpayer education to create awareness of the process and procedures of complying with tax laws and increase the tax revenue to the government.

Onuba, (2011) carried out a study on small enterprises owners and tax compliance in Nigeria. The study found out that lack of information on how government spends tax revenue and the perception that the government is not accountable is a major impediment to the success of tax authority.

Azubike (2009) studied on importance of sharing information with taxpayers. She noted that information played a key role in motivating tax payers to comply with tax laws. The study concluded that lack of information and enlightenment on the provisions of tax laws among taxpayers was a major problem which if not sufficiently addressed would continue to deny tax authority tax revenue from the taxpayers.

## **2.4 Critique of the Literature**

Contractual relationship outlined by John Locke (1632-1704) in the social contract theory forms a foundation upon which the government imposes taxes on its citizens. It is expected that citizen pay their taxes voluntarily in honor of their part of the contract. The theory however fails to address the fact that not all people vote for the ruling government and therefore not all citizens are party to the contract.

Matthijs Alink, Victor van Kommer (2016) argued that tax administration played a great role in promoting consumption tax compliance while Ayodeji (2014) highlighted the need for qualified and competent tax auditors among revenue authorities' staff for efficient tax administration. Ariyo (1997) highlighted the need

for reforms on laws and procedures to make them non-discriminative to avert apathy among taxpayers due to perceived discriminative laws which appeared to favor wealthy individuals. Establishment of proper laws and regulations and having competent staff would lead to high performance in tax administration and by increasing tax compliance as envisioned by Matthijs Alink, Victor van Kommer (2016). However this literature does not address corrupt behavior and collusion of tax officials and taxpayers which could undermine the objectives of tax administration.

While studying the significance of growth of enterprise on tax revenue, McKenzie and Woodruff (2006) considered this growth of enterprises in respect of the number of persons employed in the enterprise and formalization of the business through registration. However, enterprises may employ few people and remain informal but their output and turn-over be very high making the number of employees or formality insignificant in determining the size of the enterprise.

Studies by Mascagni and Santoro (2018), OECD's Committee on Fiscal Affairs (CFA) (2013, and Azubike (2009) identified taxpayer education as a key factor in bridging tax gaps and ensuring revenue targets are met. This is true only if taxpayer education imparts positivity towards taxation and motivates taxpayers to pay tax voluntarily. Taxpayer education without personal commitment is futile and will not yield the expected result. In an environment where taxpayers perceive themselves to be discriminated against, oppressed, or their taxes not yielding any value, they are likely to use the tax knowledge to the disadvantage of the tax Authority.

## **2.5 Summary of Literature and Research Gaps**

Empirical studies conducted by Matthijs Alink, Victor van Kommer (2016) point to the importance of tax administration in ensuring tax compliance. Studies done by Jean



and Stern (2011), McCarten (2005), Aksnes (2011), Prieto, Rodríguez and Salas (2003) advocate for strengthening tax administration to achieve tax compliance by addressing structural weaknesses and formulation of clear laws to guide the tax authority in tax administration. Masese, (2011) and Edgar Feige (2017) emphasize the need for automation to make the tax system simple and more efficient to facilitate tax administration by the authority and tax compliance for taxpayers. Studies by Ayodeji (2014) Ariyo (1997) emphasize on having properly trained staff to carry out tax audits and compliance checks to increase efficiency in tax administration. The empirical evidence from these studies has shown that tax administration has a positive effect on tax compliance among taxpayers. However, none of these studies was conducted in Kenya or Ruiru town. There is therefore a contextual gap for a similar research to be conducted in Ruiru town in Kenya.

McKenzie and Woodruff (2006) studied the significance of size of firms to tax revenue in Mexico. They measured size of enterprises by the number of people working in the enterprise, the degree of formalization and the number of outlets and concluded that the growth in size of a firm does not affect the tax compliance of the firm. Empirical study by Bird and Wallace (2003) on tax revenue from African enterprises concluded that small enterprises are non-compliant because Revenue Authorities in many developing countries focus on raising revenue from the larger enterprises which have potential of higher revenue and ignore the small enterprises. However, Eugene et al (2017) studied on the size of small and medium enterprise and their impact on taxation and noted that as the enterprises grow, they devise strategies to avoid and evade taxes and therefore larger enterprises are less compliant compared to smaller enterprises. Further studies can be conducted and different methodology

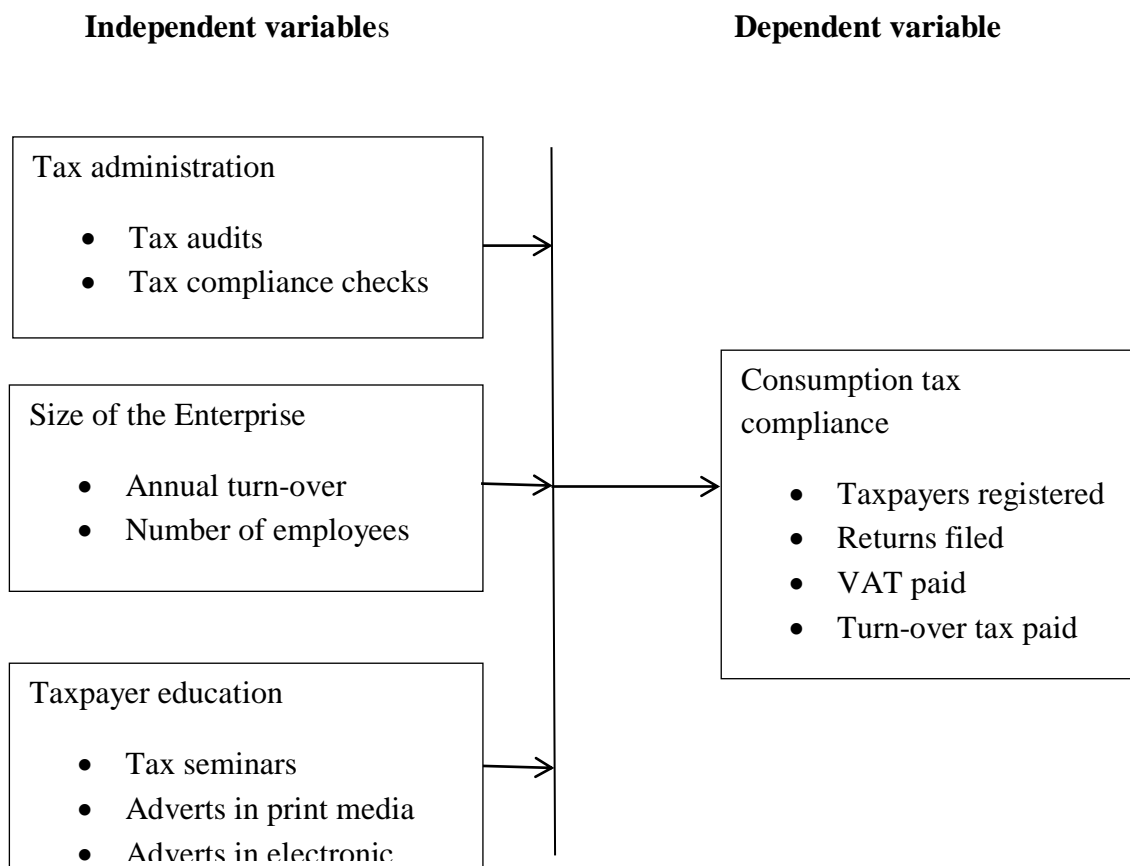
used in measuring the size of enterprises and focusing a specific area of study rather than the whole Africa as each specific region has its unique features.

OECD's Committee on Fiscal Affairs (2013) identified taxpayer education as one of the factors influencing taxpayer morale while Jean, (2009) highlighted it as a key determinant of tax compliance and recommended the introduction of taxpayer education to create awareness of the process and procedures of complying with tax laws. Empirical studies by Onuba, (2011) and Azubike (2009) highlighted the need for sharing information with taxpayers about tax matters, and how the revenue raised is utilized. Mascagni and Santoro (2018) and Jagongo and Kimaru (2014) identified tax seminars, TV and radio programs, mobile tax clinics and public barazas as avenues for conducting taxpayer education. Azubike (2009) recommended that tax authorities follow up on tax seminars to ensure compliance and introduce tax education in schools. The literature reviewed points to the positive effect of taxpayer education but does not consider the negative effect of taxpayer education in cases taxpayers use tax knowledge to evade taxes. Further studies can also be conducted to combine all the determinants highlighted in the above literature to determine how each of them affects consumption tax compliance when combined.

## **2.6 Conceptual Framework**

A conceptual framework is a formation that a researcher has confidence can be able to show the movement and the inter-linkage of the variables being studied (Camp, 2001). It is organized in a logical manner to show how variables in the study interact with each another (Grant & Osanloo, 2014). The study focused on the determinants of consumption tax compliance among micro and small enterprises. The study has identified three autonomous variables which were thought to have a causal effect on the dependent variable. The independent variables identified are tax administration,

size of enterprise and taxpayer education. Tax administration was quantified by the number tax audits and tax compliance checks done on the taxpayers. Size of enterprise was measured through their annual turn-over and the number of employees working in the enterprise. Taxpayer education was quantified by the number of tax seminars attended by the taxpayers the number of advertisements that have reached the taxpayers through the various media channels in Kenya. The dependent variable of the study is consumption tax compliance. This variable was measured through the number of taxpayers registered, returns filed and Value Added Tax or Turn-over tax paid.



**Figure 0:1 Conceptual Framework**

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter covers the research methodology applied in the study. It highlights the research design that was used, the target population, sample size used and the sampling technique used to select the respondents. It also highlights data collection methods applied, tests conducted to establish data reliability and validity, data analysis ethical issues considered with regard to data collected and operationalization and measurement of study variables.

#### **3.1 Research Design**

Silva (2017) and Akhtar (2016) define research design as the blueprint which guides the conduct process of a study with a clear plan for data collection, measurement and analysis to give answers to the research questions. The study adopted an explanatory research design to understand and explain what, why and by how much, aspects of micro and small enterprises determine consumption tax compliance of these enterprises.

#### **3.2 Target Population**

The study targeted micro and small enterprises within Ruiru town of Kiambu County in Kenya. This decision was based on the fact Ruiru town is cosmopolitan and its close proximity to the capital means it is actively involved in implementation of revenue and national policies. In addition Ruiru has many industries which promote diversity of the enterprises in the region. The town has a population of 161 micro and small enterprises licensed by Ruiru town Business licensing department.

### 3.3 Sample Size

The sample size was determined by using the formula by Yamane, Taro. (1967).

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

Where;

n=sample size

N=Population size

K=Constant (1)

e=degree of precision (was taken at 5%)

Ruiru Sub-county Business licensing department renewed single business permits for 161 micro and small enterprises in 2018. These are enterprises which were in operation in 2017 and continued operating in 2018.

Therefore,

$$n = \frac{161}{1 + (161) * 0.05^2}$$

$$= 114.795 = 115$$

$$115 * 10/100 = 11.5 \text{ Approximately } 12 \text{ (10\% addition)}$$

$$= 115 + 12$$

$$n = 127$$

### 3.4 Sampling Technique

Peter (2003) describe a sample as a small group with similar characteristics as those of the population. Sampling technique comprise the various methods of picking individual elements of population to form a small group that is representative of the whole population. The study developed a sample through simple random sampling. Kothari (2004) explains that random sampling maintains statistical regularity and

ensures that the sample selected portrays similar composition and features as the population and it can therefore be considered as a representative sample. The study randomly selected 127 enterprises to form the sample that was studied.

### **3.5 Data Collection**

Data collection process focused on collecting relevant and sufficient data to address the objectives of the study and sought to test the research hypotheses. Primary data was collected using a structured questionnaire, annexed at the back pages, was administered to the selected sample enterprises. The structured questionnaire contained closed ended questions. Any questions or clarifications requested by the respondents while filling the questionnaires were addressed accordingly.

### **3.6 Data Reliability**

Reliability is how well a test measures what it should (Tavakol & Dennick, 2011). It also refers to the extent of accuracy or the probability that a certain measure is free from error. For this study, Cronbach's alpha coefficient value was computed. Cronbach's alpha,  $\alpha$  coefficient has been the subject of considerable methodological and analytical attention (Cortina, 1993). Peterson (1994) used the Cronbach's alpha in analysing consistency in customer satisfaction data from 832 different articles and obtained 75% per cent of the observed alpha coefficients of .70 or greater, 49% were .80 or greater, and 14% were .90 or greater. As per the recommendations of Nunnally (1967), the study aimed to achieve reliability level of between 0.7 for acceptable and  $\alpha$  1 for excellent Cronbach's alpha was used to evaluate the unidimensionality of a set of scales items and compare the scores obtained, Nunnally (1978) argued that a Cronbach's alpha value of 0.7 and above, proves that the research instrument used is reliable. This study adopted a coefficient of 0.7 as the benchmark for reliability

As Table 4.2 presents, tax administration ( $\alpha=0.829$ ) was found reliable with the highest Cronbach Alpha coefficients followed by tax compliance ( $\alpha=0.826$ ) then size of enterprises ( $\alpha=0.774$ ). Taxpayer education was also found reliable at a Cronbach Alpha coefficient of 0.722.

**Table 0:1 Test of Reliability of Questionnaire**

<b>Factor</b>	<b>Number of Items</b>	<b>Cronbach Alpha score</b>	<b>Conclusion</b>
Tax administration	9	0.829	Reliable
Size of enterprise	9	0.774	Reliable
Taxpayer education	9	0.722	Reliable
Tax compliance	7	0.813	Reliable

**Source: Survey Data (2019)**

### **3.7 Validity Test**

Kothari (2004) defines validity as the degree to which an instrument successfully measures what it is designed to measure. He also considers it to be the extent to which deviations from the realized measures using the instrument reflect the actual variations among the variables being tested. To ensure validity of the research instruments in this study, a pilot study was conducted in Juja town which is a neighbor to Ruiru town and with similar features and characteristics. In the pilot test, 10 questionnaires were administered and they were all received back.

A review of the responses to the questionnaires was done and they were found to be consistent. This, according to Hamed Taherdoost (2016) is an indication of face validity of the instrument and it can be said to be relevant, unambiguous, clear and reasonable. The data collected using the study questionnaire was further tested for construct validity through Pearson correlations for all the questions. The results

indicated a significance level of less than 0.05 ( $P < 0.05$ ) confirming the validity of the questionnaire.

### **3.8 Tests of Regression Assumptions**

Various assumptions for regression such as normality, multicollinearity were tested to ensure that those assumptions were met. Normality was tested using the Shapiro-Wilk test and the results showed that all the variables had a p value above 0.05 ( $p > 0.05$ ) hence confirming the data was approximately normally distributed.

Multicollinearity was tested using tolerance levels and Variance inflation Factors (VIF). Tolerance of above 0.2 and VIF value below 10 indicate absence of multicollinearity. All the variables had a tolerance level of above 0.2 with the highest being taxpayer education at 0.862 and lowest being tax administration at 0.615. All variables also recorded VIF values of less than 10 indicating absence of multicollinearity.

Homoscedasticity was tested using residual analysis. A scatter plot of the residuals was analyzed and the data was found to coalesce around the x and y axes. This indicating the data was of homoscedastic and had a constant variation.

### **3.9 Data Analysis**

Data collected during the study was be analyzed using Statistical Package for Social Science (SPSS) program. SPSS can be able to handle huge amounts of data and has a wide range of statistical procedures designed for social sciences Martin and Acuna (2002). Multiple linear regression analysis was performed on the study variables to determine the causal relationship between the independent variables and the dependent variables. The study assumed there was a linear relationship between the



dependent and the independent variables and that data was normally distributed. The multiple regressions also assumed that there was minimal correlation among independent variables and that sum of error terms was zero. The analysis was guided by the following model.

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

Where:

**Y** is consumption tax compliance

**$\beta_0$**  is the part of consumption tax which is not determined by the factors identified by the study

**$X_1$**  represent tax administration

**$X_2$**  is the size of enterprises

**$X_3$**  represent tax education

**$\ell$**  represents the error in the system

### **3.10 Ethical Issues**

The study appreciated the need for ethical considerations in the research process. Proper ethical procedures were adhered to during the study. The confidentiality of the information collected was maintained and the identities of the respondents have not been revealed in any way. The data collected was used for academic purpose and no sensitive information was shared with a third party. The study made reference to studies conducted by other people and these have been acknowledged and properly cited.

### 3.11 Operationalization and Measurement of Study Variables

This section outlines the variables of the study, data collection instruments and how each of the variables was measured

**Table 0:1 Operationalization of study variables**

<b>Variables and indicators</b>	<b>Source</b>	<b>Data collection instruments</b>	<b>Measurement scale</b>	<b>Data Analysis</b>
<b>Independent variables</b>				
Tax administration <ul style="list-style-type: none"> <li>• Tax audits</li> <li>• Compliance checks</li> </ul>	Emmanuel (2018) Arturo Jacobs (2013).	Questionnaire	5-point Likert scales	Multiple regression
Size of enterprises <ul style="list-style-type: none"> <li>• Number of employees</li> <li>• Annual turn-over</li> <li>• Capital investment</li> </ul>	Ntiedo, Udoidem & Acha (2018) Gin Chong (2018)	Questionnaire	5-point Likert scale	
Taxpayer education <ul style="list-style-type: none"> <li>• Tax seminars</li> <li>• Adverts in media</li> </ul>	Mascagni & Santoro (2018)	Questionnaire	5-point Likert	
<b>Consumption tax compliance</b>				
<ul style="list-style-type: none"> <li>• Taxpayers registered</li> <li>• Returns filed</li> </ul>	Ahmad, Hijattulah & Shamsiah (2018)	Questionnaire Questionnaire	5-point Likert scale	Multiple regression
<ul style="list-style-type: none"> <li>• VAT or TOT paid</li> </ul>	Faridy, Freudenberg, & Sarker, (2014).	Questionnaire	5-point Likert scale	

## **CHAPTER FOUR**

### **DATA ANALYSIS, PRESENTATION AND INTERPRETATION AND DISCUSSION**

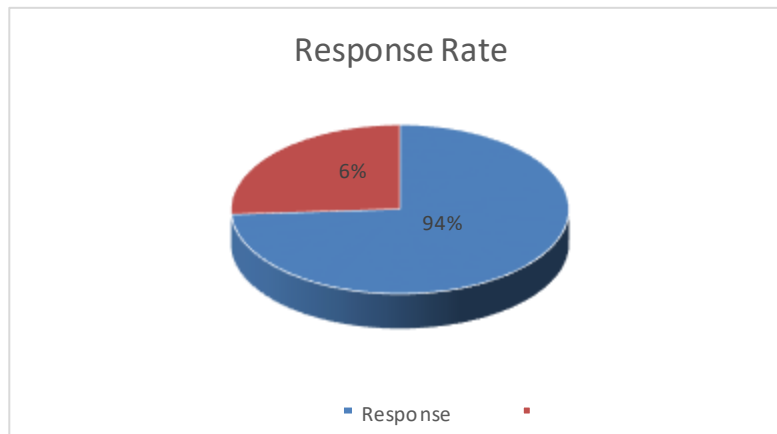
#### **4.1 Introduction**

This chapter presents the analysis of data collected from micro and small enterprises in Ruiru town. The results of the analysis are presented logically followed by their interpretation based on the data collected. The study was conducted to establish the determinants of consumption tax compliance among micro and small enterprises in Ruiru town. Data presentation and analysis in this chapter commences with the response rate, demographic characteristics of the respondents, descriptive and finally inferential statistics.

#### **4.2 Response Rate**

Questionnaires were used to seek perceptions of the taxpayer on determinants of consumption tax compliance among micro and small enterprises in Ruiru Town. One hundred and twenty seven (127) questionnaires were administered. Some of the questionnaires distributed were not returned back and only one hundred and twenty four (124) filled questionnaires were collected. Four of the 124 questionnaires collected were not fully completed and therefore were rejected and not used for further analysis. Therefore, only 120 questionnaires were considered to be fully completed and were used in the analysis presented in this chapter. This represents a response rate of 94% which was considered to be very good based on recommendation by Mugenda (200). For most academic studies, involving a response rate of approximately 35 per cent is reasonable (Baruch, 2004). Mugenda (2008) state that a 40% response rate is unreliable, 50% is adequate, 60% good and above 70% is

rated as very good while Sekaran & Bougier (2009) recommends that researchers should aim for a sixty percent (60%) and above response. Figure 4.1 illustrate the level of response rate



**Figure 0:1: Response Rate**  
Survey Data (2020)

### 4.3 Demographic Characteristics

The study sought to understand the demographic characteristics of the study sample to find out whether the characteristics could be of any influence on tax compliance. These demographic data was captured in the questionnaire administered. Some of demographic data collected by the study included; gender, age of the respondents, the period they have been business, education level of the respondents.

#### 4.3.1 Gender

The study sought to establish the gender of the respondents. Results revealed that majority of the respondents at 61.6% were male while 38.4% were female.

**Table 0:1 Respondent Gender**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Male	74	61.6
Female	46	38.4
<b>Total</b>	<b>120</b>	<b>100</b>

### 4.3.2 Age

The study also implored the respondents to state their age bracket. Results in 4.2 below reveal that majority; (39.2%) were aged between 20-35years, 37.5% were aged between 36-50 years, 15.0% were above 50 years while 8.3% were below 20 years old. The result depict that majority of the respondent are middle aged.

**Table 0:2 Respondents' Age Group**

<b>Age Group</b>	<b>Frequency</b>	<b>Percentage</b>
Below 20 years	11	8.3
20 – 35 years	47	39.2
36 – 50 years	45	37.5
Above 50years	18	15.0
Total	120	100

### 4.3.3 Level of Education

Further, the study sought to determine the extent to which the respondents had pursued education. Results in 4.3 shows that majority 39.1% had acquired education up to university degree level, 28.3% had studied up to the high school level, 27.5% had acquired education up to diploma level, 3.3% Had gone through post graduate studies while the rest 1.7% had pursued education up to primary school. The results show that most of the respondents are educated and thus they are equipped with requisite skills for their various roles in business. The ability to read, write and understand what is being said would play a critical role in the outcome of taxpayer education.

**Table 0:3 Highest Level of Education**

<b>Professional qualification</b>	<b>Frequency</b>	<b>Percentage</b>
Primary	2	1.7
High school	34	28.3
Diploma	33	27.5
University Degree	47	39.1
Postgraduate	4	3.3
<b>Total</b>	<b>120</b>	<b>100</b>

#### **4.3.4 Primary Source of Income**

The study sought to establish if the business is the primary source of the income. Results revealed that 72.5% said yes while 27.5% said no. The results demonstrate majority were having the business as the only primary source of the income. This aspect might affect their decision as whether to pay tax or not depending on the cash-flow of the business.

**Table 0:4 Primary source of Income**

<b>Primary source</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	87	72.5
No	33	27.5
<b>Total</b>	<b>120</b>	<b>100</b>

#### **4.4 Test for Assumptions of Regression**

In order to rely on and use the results obtained from inferential data analysis to make conclusions, some fundamental regression assumptions were tested. The assumptions tested are homoscedasticity, normality and multicollinearity and the assumption of linearity. The results from these tests indicated that no assumption was violated and this permitted further statistical analysis and tests of associations and prediction.

#### 4.4.1 Test of Normality

The study adopted Shapiro-Wilk test as the basis for testing normality of the data. Shapiro-Wilk indicates the level of normality of data by establishing presence of skewness, kurtosis or both. The values of Shapiro-Wilk lie between 0 and 1 and the data is considered to be approximately normal if the values exceed 0.5. The results for the normality test for the data collected for the study indicated the Shapiro-Wilk values for all the variables were above 0.5 with significance level ( $p > 0.05$ ). This confirmed the data was normally distributed and the assumption of normality was not violated. Normality assumes that the sampling distribution of the mean is normal. P-values for the Shapiro-Wilk tests were 0.53 for tax administration, 0.51 for size of enterprise, and 0.74 for taxpayer education. These results of p-values being greater than 0.05 ( $P > 0.05$ ) at 95% for all variables confirmed that the data collected was normally distributed.

**Table 0:1 Tests of Normality**

	Tests of Normality					
	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	Df	Sig.
Tax administration	.079	120	.005	.986	120	.053
Size of the organization	.080	120	.004	.991	120	.051
Taxpayer education	.118	120	.000	.980	120	.074

a. Lilliefors Significance Correction

**Source: Research Data, 2020**

The above results were also confirmed by performing a Q-Q plot for each of the independent variables against the expected normal separately. In a normally distributed data, individual elements tend to lie along the line of goodness of fit. The data for all the variables were observed to lie along the line of goodness of fit on the

Q-Q plot. Figures 4.2, 4.3 and 4.4 indicate that the data for all the variables was normally distributed and the assumption of normality was not violated.

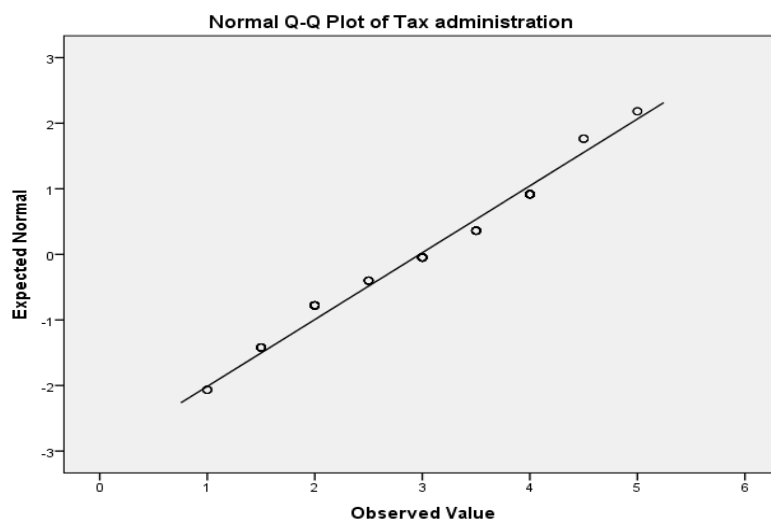


Figure 0:1: Normal Q-Q Plot of tax administration

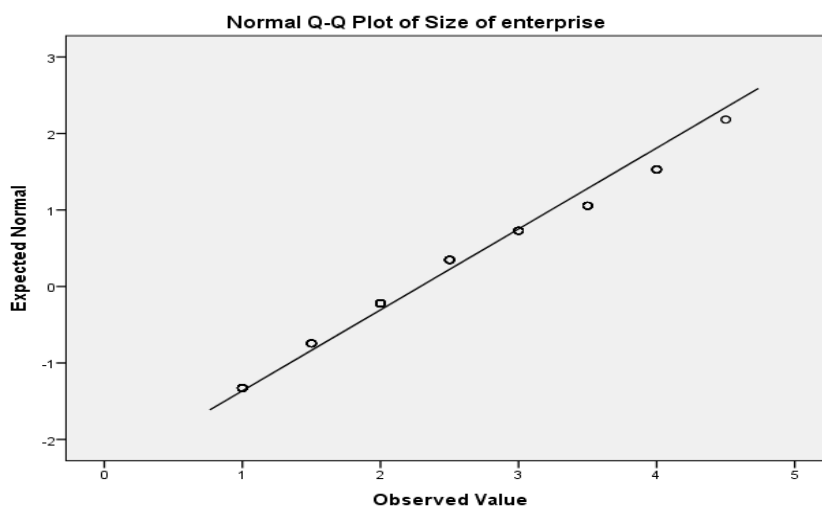
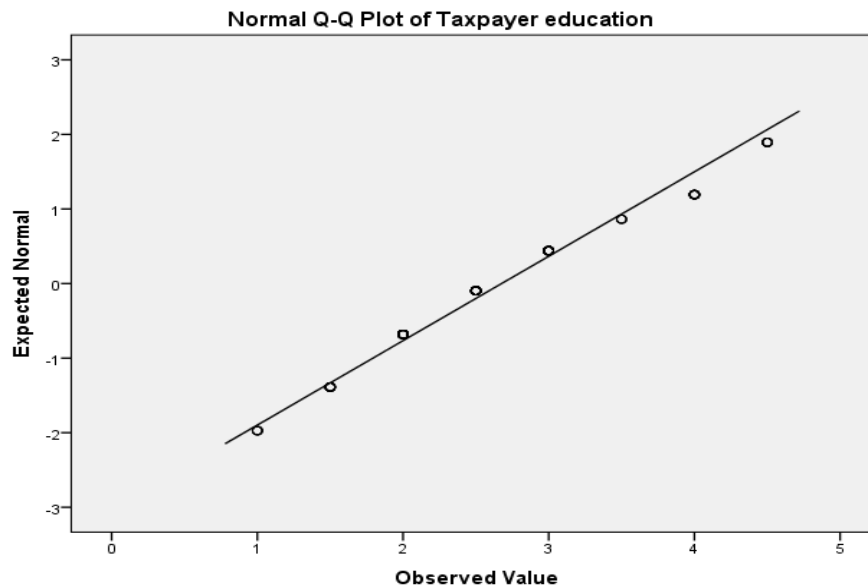


Figure 0:2: Normal Q-Q Plot of Size of the Enterprise





**Figure 0:3: Normal Q-Q Plot of taxpayer**

#### **4.4.2 Test of Multicollinearity**

Multicollinearity is a term that refers to a situation whereby high a degree of association exists between or among the independent variables in a study. In multiple regression, presence of high multicollinearity results in unreliable estimates of regression coefficients which may lead to wrong predictions (Creswell, 2014). Multicollinearity may lead to increased standard error of estimates of the Beta coefficients thereby making the results unreliable and often clouding and distorted results. The study tested for multicollinearity to ensure the data conformed to the assumption of non-multicollinearity. Multicollinearity was estimated using Variable Inflation Factor (VIF) which estimated the inflated variances resulting from linear dependence with other independent variables. Multicollinearity was tested by computing the Variance Inflation Factors (VIF) and their reciprocals, considered as the tolerance levels.

The tolerance level of the variables was 0.615 for tax administration, 0.856 for the size of the enterprise, and 0.682 for taxpayer education. The Variance Inflation Factors (VIF); which are reciprocals of tolerance were between one and two, which is

below the maximum threshold value. Ary, Jacobs & Sorensen (2015) argue that VIF values above 10 and tolerance level of less than 0.2 indicate the presence of multicollinearity. They argue that presence of multicollinearity affects the study and the outcome of the analysis of such data becomes unreliable. The results revealed no problem with multicollinearity. The variables of the study indicated VIF values of between 1.255 for tax administration, 1.284 for size of the enterprise and 1.214 for taxpayer education which is less than 10. This indicated that the data set displayed no multicollinearity.

**Table 0:2 Multicollinearity Test**

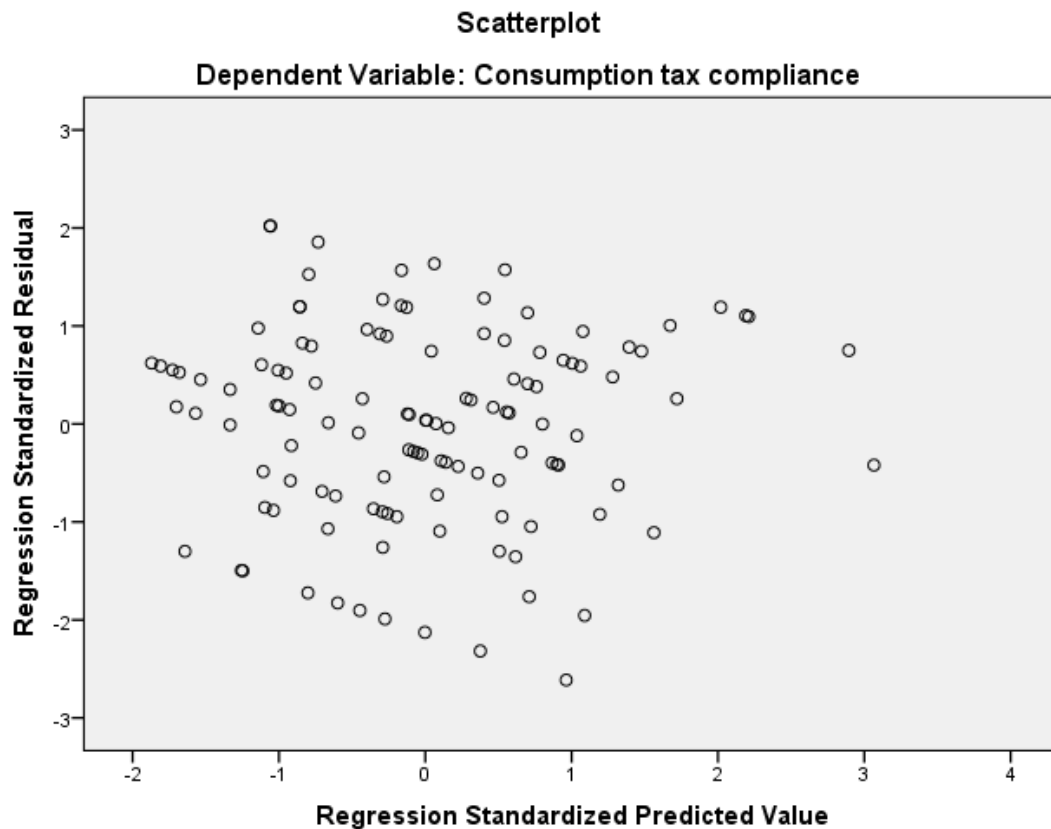
	<b>Coefficients<sup>a</sup></b>	
	<b>Collinearity Statistics</b>	
	<b>Tolerance</b>	<b>VIF</b>
Tax administration	0.615	1.255
Size of the enterprise	0.856	1.284
Taxpayer education	0.862	1.214

a. Dependent Variable: tax compliance

b. Predictors: (Constant), tax administration, size of the enterprise, taxpayer education

#### **4.4.3 Test for Homoscedasticity**

Homoscedasticity is a statistical term that explain the situation where a constant variance of the predictions determined by regression (Knaub 2007). Test for homoscedasticity assumption is best captured graphically using residual analysis (Haiyan Su and Mark L Berenson 2017). A scatter plot analysis was done and is presented below. From figure 4.5, the data analyzed was scattered close to zero mark on both x and y-axes indicating a constant variation.



**Figure 0:4 Scatter plot**

From the scatter plot, the data was found to be homoscedastic.

## **4.5 Descriptive Statistics**

### **4.5.1 Tax Administration**

Table 4.2 illustrate Tax administration on consumption tax compliance among micro and small enterprises in Ruiru town. Kenya Revenue Authority is able to effectively identify and register taxpayers with a (mean=4.37). Kenya Revenue Authority is transparent in assessing taxpayers' tax liabilities (mean=3.43). KRA is effective in monitoring and facilitating consumption tax compliance (mean=4.81). The process of filing and paying consumption tax is simple and efficient for taxpayers (mean=4.41)

Summons by KRA to their offices to provide tax information makes people more compliant with consumption tax (mean=3.88). While Compliance checks and tax audits by KRA motivates taxpayers to file returns and pay taxes had a (mean=4.02)

**Table 0:1 Tax Administration**

	<b>Mean</b>	<b>Std. Dev</b>
Kenya Revenue Authority is able to effectively identify and register taxpayers	4.37	0.826
Kenya Revenue Authority is transparent in assessing taxpayers' tax liabilities	3.43	1.273
KRA is effective in monitoring and facilitating consumption tax compliance	4.81	1.401
The process of filing and paying consumption tax is simple and efficient for taxpayers	4.41	0.684
Summons by KRA to their offices to provide tax information makes people more compliant with consumption tax	3.88	0.766
Tax audits carried out by KRA motivate taxpayers to file returns and pay taxes	4.13	0.791
Compliance checks and tax audits by KRA motivates taxpayers to file returns and pay taxes	4.02	0.658
Tax officers are well equipped and knowledgeable to conduct proper tax audits	3.86	0.598
Taxpayers pay taxes for fear that if they don't, they will be caught and be punished by KRA	3.64	9.137
<b>Tax administration</b>	<b>3.50</b>	

#### **4.5.2 Size of Enterprise and Consumption tax Compliance**

Table 4.2 illustrate size of enterprise on consumption tax compliance among micro and small enterprises in Ruiru town. The business has existed for a period long enough to survive in future with a (mean=3.70). The business has employed sufficient number of people for its size with a (mean=3.52). The business recorded fairly high income for the last two years (mean=4.71). Considerable amount of capital has been

invested in the business had a (mean=4.08) . The business is averagely profitable as compared to similar businesses within the town with a (mean=3.41). While the business generates sufficient cash-flow to meet its daily cash requirements had a (mean=3.09)

**Table 0.2: Size of the Enterprise**

	<b>Mean</b>	<b>Std. Dev</b>
The business has existed for a period long enough to survive in future	3.7	0.762
The business has employed sufficient number of people for its size	3.52	0.855
The business recorded fairly high income for the last two years	4.71	0.654
Considerable amount of capital has been invested in the business.	4.08	0.902
The business is highly profitable as compared to similar businesses within the town	3.41	1.071
The business generates sufficient cash-flow to meet its daily cash requirements	3.09	0.938
The business has a bank account in its name	3.61	0.736
The business is funded through loans more than the owners savings	3.16	0.912
The business have been able to recoup back all the capital invested	3.53	0.831
<b>Size of the enterprise</b>	<b>3.75</b>	

#### **4.5.3 Taxpayer Education**

The study outlined taxpayer education as a major predictor of consumption tax compliance. Taxpayer education is conducted through media and tax seminars among others. I have tax knowledge with a (mean=3.60). I have acquired tax knowledge from KRA (mean=3.44). I frequently hear of tax seminars being conducted by KRA (mean=3.64). Tax seminars organized by KRA are effective in promoting consumption tax compliance among taxpayers (mean=3.25) Taxpayer education

positively impact consumption tax compliance among micro and small enterprises (mean=4.16). Lastly a KRA has efficiently sensitized the public about payment of taxes (mean=4.31)

**Table 0.3: Taxpayer Education**

	<b>Mean</b>	<b>Std. Dev</b>
I have tax knowledge	3.61	0.487
I have acquired tax knowledge from KRA	3.44	1.188
I frequently hear of tax seminars being conducted by KRA	3.64	1.338
Tax seminars organized by KRA are effective in promoting consumption tax compliance among taxpayers	3.25	1.165
Taxpayer education positively impact consumption tax compliance among micro and small enterprises	4.16	1.042
KRA has efficiently sensitized the public about payment of taxes	4.31	0.222
I have attended at least one tax seminar	3.51	0.961
Many taxpayers have been taught on why and how to pay taxes.	3.95	0.837
Tax education should to be introduced as part of school curriculum	4.08	1.036
<b>Taxpayer Education</b>		<b>3.73</b>

#### **4.5.4 Consumption tax compliance**

The focus of the study was consumption tax compliance. This was measured through the number of people registered as taxpayers, the number of taxpayers who declared their output for VAT or TOT faithfully and the number of taxpayers who had paid all the VAT or TOT due. The statement I have been effectively registered as a taxpayer by KRA and I have a KRA PIN had a (mean=4.89). I have been faithful in declaring all my output for VAT or TOT with a (mean = 3.64). Finally I have paid all VAT or TOT due had a ( mean= 3.96).

**Table 4.10 : Consumption Tax Compliance**

	<b>Mean</b>	<b>Std. Dev</b>
I have been effectively registered as a taxpayer by KRA and I have a KRA PIN	4.89	0.761
My business is registered company and has a KRA PIN of its own	4.31	0.968
My PIN or that of my business has VAT obligation	3.91	1.012
I have been faithful in declaring all my output for VAT or TOT	3.64	0.036
I have paid all VAT or TOT due	3.96	0.931
I have declared all the income generated by my business and filed all the annual returns	4.02	0.913
I have a valid Tax compliance Certificate	3.83	0.631
	<b>4.19</b>	

Survey Data (2020)

## **4.6 Inferential Statistics**

### **4.6.1 Correlation Coefficients**

Table 4.11 presents the results of Pearson's correlation analysis for the various variables used in the study. The results indicate that all the independent variables had a statistically significant relationship with the dependent variable. The study conducted correlation analysis at 95% confidence interval and 5% level of significance. The Pearson's correlation results indicate that tax administration is positively related to consumption tax compliance with a coefficient ( $r=0.325$ ,  $p<0.01$ ). Size of enterprise on the other appeared to have a weak but positive relationship with a coefficient of ( $r=0.427$ ,  $p<0.01$ ). Of all the independent variables of the study, taxpayer education had the strongest positive relationship with consumption tax compliance with a correlation of ( $r=0.565$ ,  $p<0.01$ ). This revealed that the greatest

effect on consumption tax compliance would result from variation in taxpayer education.

**Table 4.11: Correlation Matrix**

Variable		Tax compliance	Tax Administration	Size of the Enterprise	Taxpayer Education
Tax compliance	Pearson Correlation	1			
Tax administration	Pearson Correlation	0.325	1		
Size of the enterprise	Pearson Correlation	0.427	0.251	1	
Taxpayer education	Pearson Correlation	0.565	0.450	0.546	1

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

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

Source: Author

This indicates that a change in any of the independent variables causes a change in the dependent variable in the same direction as the independent variables.

#### 4.6.2 Regression Analysis

The study was conducted to ascertain the determinants of consumption tax compliance among micro and small enterprise in Ruiru Town. To attain this objective, the study narrowed down to three specific objectives and set out to test the study hypotheses which were derived from the study objectives. Subsequently, regression analysis was performed to produce results which were used to address the study objectives and to make predictions.

##### 4.6.2.1 Coefficient of Regression Analysis

The regression equation model used in the study was;

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



Where  $Y$  = tax compliance,  $X_1$  = tax administration,  $X_2$  = size of the enterprise,  $X_3$  = taxpayer education and  $e$  = error term

#### 4.6.2.2 Model Summary

In order to test how well the model works in explaining the, Determinants of consumption tax compliance regression analysis was conducted. The findings in Table 4.12, revealed that tax administration, size of the enterprise and taxpayer education correlate with tax compliance up to 60.8% ( $R=0.608$ ). The findings also revealed that the independent variables account for 36.9% ( $R^2 =0.369$ ) variation in consumption tax compliance. This implies that 63.1% of the change in tax compliance was caused by other factors which were not included in the model. The findings further revealed that even if the results adjusts, the model would still account for 35.9% (Adjusted  $R^2$ , 0. 359) variation of tax compliance. Individually, the independent variables are all positively and significantly correlated with the dependent variable. The biggest variation is caused by taxpayer education at 0.636 ( $p=0.000$ ) while size of enterprise account for the least variation at 0.223 ( $p=0.003$ )

**Table 4.21: Analysis of Variance between Determinants of consumption tax compliance**

	Unstandardized		Standardized		Statistics			
	Collinearity		Coefficients		T	Sig	Tolerance	VIF
	B	Std. Error	Beta					
(Constant)	0.488	0.399	1.222	0.223				
Tax administration	0.363	0.094	0.178	3.861	0.006	0.615	1.255	
Size of the enterprise	0.223	0.076	0.198	3.065	0.003	0.856	1.284	
Taxpayer education	0.636	0.098	0.407	6.482	0.000	0.862	1.214	
R	0.608 <sup>a</sup>							
R Square	0.369							
Adjusted R Square	0.359							
F Value	37.659							
Sig	0.000 <sup>b</sup>							

**a Dependent Variable: consumption tax compliance**

**b Independent Variables: (Tax Administration, Size of the Enterprise, Taxpayer Education)**

#### 4.6.2.3 Analysis of Variance

To ascertain whether the model effectively explains the relationship among variables as advanced by the conceptual model, further ANOVA tests were conducted. The results from Table 4.15 show an F statistics value of 37.659 with a significance level of 0.000. This level of significance is lower than the standard probability of 0.05 significance level. Hence establishing the model is statistically significant. The implication is that each independent variable (tax administration, size of the enterprise and taxpayer education) contributes significantly to changes in the dependent variable (tax compliance). This shows that the model works and thus accounts for significantly more variance in the dependent variable than would be expected by chance.

#### 4.6.2.4 Regression equation

The study had formulated a study model of the form

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

From the regression analysis, a regression equation was derived from the beta coefficients as;  $Y = 0.488 + 0.363X_1 + 0.223X_2 + 0.636X_3$

From this equation, when all other factors are constant, consumption tax compliance level is at a constant of 0.488. A unit change in tax administration causes a positive change in consumption tax compliance by 0.363 while a unit change in the size of enterprise leads to a positive change in consumption tax compliance by 0.223. Similarly, a unit change in taxpayer education causes a positive change of 0.636 in consumption tax compliance. From this equation taxpayer education appears to have the greatest effect on consumption tax compliance followed by tax administration while size of enterprise has the least effect.

#### 4.6.2.5 Test of Hypotheses

The first hypothesis  $H_{o1}$  stated that Tax administration has no significant effect in promoting consumption tax compliance among micro and small enterprises in Ruiru town. Tax administration has a positive relationship effect on the consumption tax compliance among micro and small enterprises in Ruiru town. The results on Table 4.12 revealed that p value was less than 0.05,  $\rho=0.006$  which implies that relationship was statistically significant therefore hypotheses was rejected.

The second hypothesis  $H_{o2}$  stated that the size of enterprises has no significant effect on consumption tax compliance among micro and small enterprises in Ruiru town. Size of the enterprise has a positive relationship effect on the consumption tax compliance among micro and small enterprises in Ruiru town. The results on Table

4.12 revealed that p value was less than 0.05,  $\rho=0.003$  which implies that relationship was statistically significant therefore hypotheses was rejected.

The third hypothesis  $H_{o3}$  stated that the taxpayer education has no significant effect on consumption tax compliance among micro and small enterprises in Ruiru town. Taxpayer education has a positive relationship effect on the consumption tax compliance among micro and small enterprises in Ruiru town. The results on Table 4.12 revealed that p value was less than 0.05,  $\rho=0.000$  which implies that relationship was statistically significant therefore hypotheses was rejected.

**Table 4.12: Summary of hypotheses**

<b>Hypothesis</b>	<b>Statement</b>	<b>sig</b>	<b>Decision</b>
Ho1	Tax administration has no significant effect in promoting consumption tax compliance among micro and small enterprises in Ruiru town.	0.006	Rejected
Ho2	Size of enterprises has no significant effect on consumption tax compliance among micro and small enterprises in Ruiru town.	0.003	Rejected
Ho3	Taxpayer education has no significant effect on consumption tax compliance among micro and small enterprises in Ruiru town.	0.000	Rejected

## **4.7 Discussion of the Findings**

This section presents discussion of the results of various tests carried out on the study.

The results of each of the hypothesis in this study are discussed in this section.

### **4.7.1 Tax Administration**

The first objective of the study was to determine the effect of tax administration on consumption tax compliance among micro and small enterprises in Ruiru town. The

objective had a corresponding hypothesis which stated that Tax administration has no significant effect in promoting consumption tax compliance among micro and small enterprises in Ruiru town. The findings of this study were statistically significant at a p value of 0.006 which is less than 0.05 the conventional probability significance level. Tax administration which include registration of taxpayers, providing the right platform for filing of returns and paying taxes, conducting compliance checks and carrying out comprehensive tax audits promote tax compliance among taxpayers. Similar results were reported by Matthijs Alink, Victor van Kommer (2016) who argued that tax administration played a great role not only in detecting tax evaders but ensuring that those who file pay the correct amount of taxes. The study observed that administrative effort by the tax authority in the form of tax audit and compliance checks served to promote tax compliance among taxpayers for the fear of being caught and punished for non-compliance. This was in agreement with a study by Keen and Slemrod (2017) who noted that an optimal tax administration has the potential to lower the elasticity of taxable income by making it very costly enterprise owners to conceal the income. The study noted that it is particularly important to develop an effective tax administration with properly trained and equipped staff who can monitor and facilitate taxpayers to comply and take corrective action where necessary. It was also noted that compliance procedures and processes need to be short, clear and precise. This was in agreement with the outcome of a study by Jean and Stern (2006) which concluded that tax administration which enhances and simplifies processes and procedures of tax compliance is more likely to promote tax compliance among taxpayers.

#### **4.7.2 Size of the Enterprise**

The second objective of the study was to establish the effect of the size of enterprises on consumption tax compliance among micro and small enterprises in Ruiru town. The objective had a corresponding hypothesis which stated that size of enterprises has no significant effect on consumption tax compliance among micro and small enterprises in Ruiru town. The findings of this study was statistically significant at a p value of 0.003 which is less than 0.05 the convectional probability significance level. The study agreed with the study conducted by Nahida Fariday (2017) which noted that small enterprises are more likely to be non-compliant because they are more affected by complexities of tax laws and don't afford to hire professionals to help them. Large enterprises on the other hand have resources to deal with the complexities by hiring experts and are able to spread the compliance costs across large-scale operations. Similarly, the study conducted by Smulders et al, (2012) on tax compliance among small businesses in South Africa found out that the level of compliance among the small enterprises had a positive relationship with their size. The results showed that very enterprises small found it too costly to comply. The study found such compliance costs and accounting costs to be regressive with the size of the enterprise with small enterprises bearing a heavier burden. As a result, majority of the very small enterprises tend to be non-compliant as compared to the larger enterprises.

#### **4.7.3 Taxpayer Education**

The third objective of the study was to establish the effect of taxpayer education on consumption tax compliance among micro and small enterprises in Ruiru town. The objective had a corresponding hypothesis which stated that taxpayer education has no significant effect on consumption tax compliance among micro and small enterprises

in Ruiru town. The findings of this study was statistically significant at a p value of 0.000 which is less than 0.05 the convectional probability significance level. Similar study was done by Mascagni and Santoro (2018) and they identified taxpayer education as a key factor in bridging tax gaps in Africa. They urged tax Authorities to do more to increase taxpayers' knowledge and create awareness on the need for them to pay tax. They noted that in Africa, taxpayer education initiatives are conducted through seminars aimed at specific taxpayers mostly newly recruited taxpayers, TV and radio programs. They recommended that tax authority follow up on tax seminars to ensure compliance and introduce tax education in schools. Isbell (2017) also studied on tax knowledge among taxpayers and business associations. He noted that majority of taxpayers were non-compliant because they lacked tax knowledge and this challenge was more pronounced among small taxpayers than among large taxpayers. He concluded that lack of tax knowledge was the greatest hindrance to voluntary tax compliance among small enterprise owners. Jean, (2009) also observed that lack of training initiatives had led to low compliance levels and thus low tax revenue collected. Tax-payer education plays a significant role in taxpayer's decision on whether to comply or not. Those who have tax knowledge tend to be more compliant than those who lack tax knowledge.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter systematically presents the summary of the findings, conclusions and recommendations based on the data presented and analyzed in chapter four. The chapter summary highlights the basis of the study, the literature reviewed and the study methodology used.

#### **5.2 Summary of the Study**

The study was conducted to establish the determinants of consumption tax compliance among micro and small enterprises in Ruiru town. Specifically, the study sought to ascertain the effect of tax administration on consumption tax compliance, to establish the effect of size of the enterprise on consumption tax compliance and lastly to determine the effect of taxpayer education on consumption tax compliance. The study had hypothesized that tax administration had no significant effect in promoting consumption tax compliance among micro and small enterprises in Ruiru town, that size of enterprises had no significant effect on consumption tax compliance among micro and small enterprises in Ruiru town and also that taxpayer education did not have significant effect on consumption tax compliance among micro and small enterprises in Ruiru town. The study was anchored on social contract and the ability to pay theories and also reviewed the empirical works of similar studies conducted in the past. The study collected primary data from a sample of 127 enterprises that was randomly selected.

##### **5.2.1 Effect of Tax Administration**

The first objective was to establish the effect of tax administration on consumption tax compliance. Correlation analysis showed that the variables are positively and



significantly associated. Also the Regression analysis shows there was a positive significant linear relationship between the two variables. The research also established that KRA is effective in monitoring and facilitating consumption tax compliance and the process of filing and paying consumption tax is simple and efficient for taxpayers. Lastly, Kenya Revenue Authority is able to effectively identify and register taxpayers.

### **5.2.2 Effect of Size of the Enterprise**

The first objective was to establish the effect of size of the enterprise on consumption tax compliance. Correlation analysis showed that the variables are positively and significantly associated. Also the Regression analysis shows there was a positive significant linear relationship between the size of the enterprise and tax compliance variables. The research also established that the majority of the enterprises recorded fairly high income for the past two years and that considerable amount of capital had been invested in the enterprises. Lastly, the enterprises were stable having existed for more than two years and had the potential to continue with operations to the foreseeable future.

### **5.2.3 Effect of Taxpayer Education**

Finally, the study set out to establish the effect of Taxpayer education on consumption tax compliance. Correlation analysis showed that the variables are positively and significantly associated. Also the Regression analysis shows there was a positive significant linear relationship between the two variables. From the model regression model, taxpayer education was found to have the greatest influence on consumption tax compliance compared to tax administration and size of enterprise. KRA was viewed to have efficiently sensitized the public about payment of taxes had the highest mean score followed by the view that taxpayer education positively impact

consumption tax compliance among micro and small enterprises and finally taxpayer admitting that the frequently hear of tax seminars being conducted by KRA

### **5.3 Conclusions**

Based on the foregoing findings, the study thus fails to accept the first null hypothesis and concludes that tax administration has a significant effect on consumption tax compliance among micro and small enterprises in Ruiru town. Tax administration is found to play a significant role in the consumption tax compliance among micro and small enterprises in Ruiru town. It is particularly notable that summons by KRA to their offices to provide tax information makes people more compliant with consumption tax

Based on the findings, the study thus fails to accept the first null hypothesis and concludes that size of the enterprise has a significant effect on consumption tax compliance among micro and small enterprises in Ruiru town. Size of the enterprise is found to play a significant role in the consumption tax compliance among micro and small enterprises in Ruiru town.

On Taxpayer education, study fails to accept the first null hypothesis and concludes that taxpayer education has a significant effect on consumption tax compliance among micro and small enterprises in Ruiru town. Taxpayer education is found to play a significant role in the consumption tax compliance among micro and small enterprises in Ruiru town.

### **5.4 Limitations**

During the study, various challenges were faced but strategies were devised to curb the challenges. For instance during data collection process, some of the respondents were unwilling to share information about their business and tax matters. In four

cases, respondents reported to have misplaced the questionnaires and more questionnaires were given to them. The researcher had to personally assure some of the respondents of confidentiality of data collected. The time available to was minimal and the researcher had to employ two research assistants who are well known within the town to administer and collect the questionnaires

### **5.5 Recommendations**

From the findings and conclusion above, the study made the following recommendations whose adoption can promote consumption tax compliance. KRA should employ qualified staff who are able to conduct comprehensive tax audits and frequent and random compliance checks. Both desk and field audits should be enhanced and those found to be non-compliance should be encouraged and assisted where necessary. KRA should simplify the procedures and processes involved in filing of returns and payment of taxes and make them understandable and executable by all taxpayers including those without special expertise. The process should be shortened to minimize the time spent in filing and paying consumption tax. KRA should focus its efforts on all enterprises irrespective of their sizes in attempt to ensure that enterprise owners are compliant. Enterprises should adopt compliance strategies that are cheapest and most convenient to them. Taxpayer education should be enhanced through incorporating it as a subject in school curriculum from lower levels of education. Tax seminars should be made more frequent, free of charge and open for all and properly publicized to reach more people.

### **5.6 Suggestion for Further Research**

The study was conducted to establish the determinants of consumption tax compliance among micro and small enterprises in Ruiru town. The determinants highlighted (tax administration, size of enterprise and taxpayer education) were found

to influence only 36.9% of consumption tax compliance. A similar study can with focus on specific consumption tax such as excise tax. Further studies can also be conducted in different areas involving different population more independent variables such as social factors.

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## APPENDICES

### Appendix 1: Questionnaire

#### Introduction

I am a student at Kenya School of Revenue Administration. I am conducting a study on the determinants of consumption tax compliance among Micro and Small enterprises (MSEs) in Ruiru town as a requirement of the study program. This study is meant for academic purpose only and the data collected will not be used for any other purpose or shared to any third party. The privacy of the data collected is of great importance and that privacy is guaranteed. To enable the success of the research, the questionnaire below has been prepared as a data collection tool. Kindly spare a few minutes of your time to respond to the questions. We value and highly appreciate your response. Thank you.

#### PART A: DEMOGRAPHIC DATA

For the following section, respond by ticking in the box appropriately

Gender	Male	<input type="checkbox"/>	Female	<input type="checkbox"/>
Age bracket	Below 20 years	<input type="checkbox"/>	36 to 50 years	<input type="checkbox"/>
	20 to 35 years	<input type="checkbox"/>	Above 50 years	<input type="checkbox"/>
	Highest level of education attained			
	Primary and below	<input type="checkbox"/>	College	<input type="checkbox"/>
	High school level	<input type="checkbox"/>	Post graduate	<input type="checkbox"/>
Is the business the primary source of income?				
	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>

## PART B: TAX ADMINISTRATION

This section meant to determine the effect of tax administration in promoting consumption tax compliance among micro and small enterprises in Ruiru town. From the statements below, tick in the box that best represent your response to the statement

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Kenya Revenue Authority is able to effectively identify and register taxpayers					
Kenya Revenue Authority is transparent in assessing taxpayers' tax liabilities.					
KRA is effective in monitoring and facilitating consumption tax compliance					
The process of filing and paying consumption tax is simple and efficient for taxpayers					
Summons by KRA to their offices to provide tax information makes people more compliant with consumption tax					
Tax audits carried out by KRA motivate taxpayers to file returns and pay taxes					
Compliance checks by KRA motivates taxpayers to file returns and pay taxes					
Tax officers are well equipped and knowledgeable					

to conduct proper tax audits					
Taxpayers pay taxes for fear that if they don't, they will be caught and be punished by KRA					

**PART C: SIZE OF THE ENTERPRISE**

This section meant to determine the size of enterprises as a determinant of consumption tax compliance among micro and small enterprises in Ruiru town. From the statements below, please tick in the box that best represent your response to the statement

What is the main activity in your business?

Service

<input type="checkbox"/>
<input type="checkbox"/>

Trade

Manufacturing

What is the form of ownership of the business?

Sole proprietorship

<input type="checkbox"/>
<input type="checkbox"/>

Partnership

Limited company

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
The business has existed for a period long enough to survive in future.					
The business has employed sufficient number of people for its size					
The business recorded fairly high income for the last two years.					
Considerable amount of capital has been invested in the business.					
The business generates sufficient cash-flow to meet its daily cash requirements					

The business is highly profitable as compared to similar businesses within the town					
The business has a bank account in its name					
The business is funded through loans more than the owners savings					
The business have been able to recoup back all the capital invested					

#### **PART D: TAX PAYER EDUCATION**

<b>Statement</b>	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly disagree</b>
I have tax knowledge					
I have acquired tax knowledge from KRA					
I frequently hear of tax seminars being conducted by KRA					
Tax seminars organized by KRA are effective in promoting consumption tax compliance among taxpayers					
I have attended at least one tax seminar					
KRA has efficiently sensitized the public about payment of taxes					

Many taxpayers have been taught on why and how to pay taxes.					
Taxpayer education positively impact consumption tax compliance among micro and small enterprises					
Tax education should to be introduced as part of school curriculum					

#### **PART E: CONSUMPTION TAX COMPLIANCE**

This section meant to determine the level of consumption tax compliance among micro and small enterprises in Ruiru town. From the statements below, tick in the box that best represent your response to the statement

<b>Statement</b>	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly disagree</b>
I have been effectively registered as a taxpayer by KRA and I have a KRA PIN					
My business is registered company and has a KRA PIN of its own					
My PIN or that of my business has VAT obligation					
I have been faithful in declaring all my output for VAT or TOT					
I have paid all VAT or TOT					

due					
I have declared all the income generated by my business and filed all the annual returns					
I have a valid Tax compliance Certificate					

Thank you for having taken time to read through questionnaire and for truthfully responding to the questions. Your response will help the study in making conclusions and recommendation.



**Appendix 2: Budget of the Study**

<b>Activity</b>	<b>Cost</b>
Preparation and distribution of questionnaires to the respondents	3500
Collection of questionnaires from the respondents	2000
Data analysis	15000
Preparation of the final report	4500
Total cost of the study	25,000

**Appendix 3: World Bank definitions of MSMEs**

<b>Enterprise</b>	<b>Employees</b>	<b>Annual turnover</b>
Micro or small enterprise	Up to 50	Up to \$3 million
Medium enterprise	51 to 300	\$3 million to \$15 million

Source: World Bank (2005)

#### Appendix 4: Definition of Micro and Small Enterprises in Kenya

<b>Enterprise</b>	<b>Employees</b>	<b>Annual turnover</b>	<b>Investment in plant and machinery or registered capital for manufacturing enterprise</b>	<b>Investment in equipment or registered capital for service and farming enterprise</b>
Microenterprise	1 to 9	Less than ksh 500,000	Does not exceed ksh10million	Does not exceed ksh 5million
Small enterprise	10 to 50	500,000 to 5 million	Ksh 10 to 50million	Between ksh 5 and 20million

Source: Micro and Small enterprises Act 2012.

### Appendix 5: Contribution of MSMEs in selected African countries

Countries	Contributions to GDP (%)	Contributions to Employment (%)	References
Nigeria	50%	70%	Ariyo, 2011; Kolasiński, 2012;
Ethiopia	3.4%	90%	Central Statistic Agency (CSA), 2003 & Gebrehiwot 2006
South Africa	50-60%	60%	DTI, 2012; Willemse, 2010;
Tanzania	60%	20%	Echengreen & Tong, 2005; Ngasongwa, 2002
Ghana	70%	49%	Ghana Bank Doing Business Report, 2013; World Bank, 2006; Abor & Quartery, 2010;
Zimbabwe	40%	15%	Katua, 2014; Zwinoira, 2015
Zambia	8%	30%	Mbuta, 2007
Rwanda	20.5%	60%	Mukamuganga, 2011
Kenya	40-50%	80%	Mwarari & Ngugi, 2013;
Uganda	18%	90%	Uganda Ministry of Trade, Industry and Cooperatives (MTIC), 2015

Source: (Samuel Muriithi, 2017)

### Appendix 6: List of Micro and Small Enterprises in Ruiru Town

	<b>Business Name</b>	<b>Activity</b>
1	Maria polis	Consultancy
2	Crown Paints Distributors	Hardware
3	P.K Njoroge & Company Advocates	Legal services
4	Skywave Management services ltd	Debt collection services
5	Third eye opportunities	Business Management consultancy
6	Danco Plastics	Manufacturing
7	C.K Business Center	General store
8	Stan Consulting Group ltd	Business management consultancy
9	Melbourne Shoe store	Shoes
10	Eng Consultants	Business management consultancy
11	Mururumo Business Community Office	Consultancy
12	Kiztech solutions and Associates	IT consultancy
13	Green Touch Business services ltd	Consultancy
14	Creative Business Group	General store
15	Business and Student center business computer lab	IT consultancy
16	Sanfred Business center	General store
17	Githinji Tanu & Company Advocates	Legal services
18	Exodus general shop	General store
19	Karis technologies	Computer services
20	Wakims sodas ltd	Cafeteria
21	Hall equatorial ltd	Contractor
22	Nduati Waweru Accountancy and Consultancy	Consultancy
23	Herritech Venture salad	Grocery
24	Cooking oil and milk ATM	Industrial consultancy
25	Dotway enterprises	Computer store
26	Webmaster solutions	IT consultancy
27	Alpha business park	Corporate services
28	Ankar Realtors	Fabricators
29	Smile-line dental clinic	Health services
30	Ruiru business college	Training
31	Ultimax beauty and cosmetics	Cosmetics
32	Total Package insurance agency	Insurance agency services
33	Corner chips center	Hotel
34	Skylimit management consultants ltd	Business consultancy
35	Crimson electricals	General store
36	Hi-Tech computer technologies	IT consultancy
37	DawalinePharmacy and Healthcare	Health services
38	Simka security group	Security services
39	Sams cyber center	IT consultancy
40	Mwangaza insurancy agency	Insurance agency services

41	Pacesetters Claims settling agency	Insurance agency services
42	Braisway Business and accountancy college	Training
43	Dorothy Agencies	Property management
44	Vitally psycho-counseling	Counseling services
45	Goldken Electricals	Electrical appliances
46	Plaza Ultra sound center	Health services
47	Digital electrical	Electrical appliances
48	Arkline Hardware	Hardware
49	Kinga force security company	Security services
50	Fortune plus capital limited	SACCO
51	Bridgelight tax consultants	Consultancy
52	Ruiru Liquor center	Pub
53	Keen Lab services	Health services
54	Tiptop wellness center	Nugabest
55	Wiro Family care	Counseling services
56	Wanyama and Company Advocates	Legal services
57	Emma fashion center	Clothes
58	Baby world	Clothes
59	Makuyo Gacoya & Associates	Legal services
60	Demajo Consultants	Tax consultants
61	Geochal	M-pesa services
62	Primier Driving school	Training
63	Meck Solutions	Branding and marketing
64	Stead Electricals	Electrical appliances
65	Alpha mart enterprises	General store
66	Shalom foods	Hotel
67	Fairline stores	General store
68	Muthoni Nyaguto Advocates	Legal services
69	Seasons general merchants	General store
70	Iruga food stores	Cereal supplies
71	Bridge Academy	Education
72	Ruiru garage	Garage
73	Waki hotel	Hotel
74	Ouma Outfits	Clothes
75	Eagles restaurant	Hotel
76	Presbeta Investments ltd	Real estate
77	Wanjiru Mwenda & Co. Advocates	Legal services
78	Home trust	Real estate
79	Petans Driving school	Training
80	Rurii Business center	Metal works
81	Emma Daniels driving school	Training
82	Shikamed center	Health services
83	Lynfair insurance agency	Insurance agency services
84	Lizflex Enterprises	Auto spare parts

85	Mama Ken Botique	Clothes
86	Gumtree Pharmacy	Health services
87	Kagama Hardware	Hardware
88	Vinbig beauty shop	Cosmetics
89	Good Health chemist	Health services
90	Cake delight	Bakery
91	Neno opticians	Health services
92	Starlitz center	General store
93	Temani Hardware	Hardware
94	Mutuchem enterprises	Health services
95	Fingerprint capital	Construction
96	Bestways satellite	Telecommunications connections
97	Wano Engineering systems	Electrical installations
98	Twinfix land surveyors and consultants	Land surveyor
99	Tai Sacco society	SACCO
100	Ruiru Fairview academy	Education
101	Baraka business center	Electronic store
102	Simon Nganga	Financial consultant
103	Viwaki Hardware and Electricals	Hardware
104	Ivy shoppers	Clothes
105	Shibah Hardware	Hardware
106	Weches Tattoos shop	Cosmetics
107	Collimar Agencies	Business networking
108	C.K Cycle mart	Bicycle store
109	Water point	Water distributors
110	Azlon limited	Packaging bags
111	Cylofa prints	Print shop
112	Northlands city	Real estate
113	Trax Kenya	Construction
114	Bimtech enterprises	Timber business
115	Silver fox Graphics	Designers
116	Buffmac link	Corporate services
117	Buhler ltd	Equipment supplier
118	Geotraks	Surveyors
119	Silver mob electricals	Electrical appliances
120	Hemulands Survey ltd	Surveyors
121	Styles and Finishes Hardware	Hardware
122	Shapefit Fitness center	Gym
123	Scud Insurance agency	Insurance agency services
124	Classic foods ltd	Hotel
125	Avenue starter technologies	Consultancy
126	Eliza Business ventures	Electrical appliances
127	Unik Contractors and Fabricators	Metal works
128	Exodus furniture	Timber business

129	Mvua Technologies ltd	IT consultancy
130	Star plastics	Plastics dealer
131	Lbc Platinum computer center	Computer store
132	Ruja African fashion	Clothes
133	Smart Business college	Training
134	Sahara city	Car wash
135	Agnetta Pallet shop	Furniture
136	Sahib Bicycles	Motorcycle repairs
137	Genesis Timber yard	Timber business
138	Gawa animal feeds	Animal feed store
139	PRD rigs Kenya ltd	Drilling
140	Sossi feeds	Animal feed store
141	Open doors properties ltd	Real estate
142	Kentrack enterprises	Alarm systems
143	Proue Associates	Consultancy
144	Breakthrough Counseling center	Counseling services
145	Maritu and Advocates	Legal services
146	Outstech solutions	Wed design services
147	Samawati modern homes	Interior designs
148	Anstar Grocery	Grocery
149	Bridgepoint energy	Electrical and electronics hardware
150	Navkar Traders	Packaging bags
151	Inhim Designers	Interior designs
152	Mukuria Digital Agency	Marketing services
153	Frankline security solutions	Security services
154	Steenbok car hire	Car hire services
155	Ben Services store	Services
156	Ichaweri boutique	Clothes
157	Jusma electrical and Hardware	Hardware
158	Sure electronics	Electrical appliances
159	Benny Penny Chemist	Health services
160	Pollen ltd	Agro-consultancy
161	Prime coating	Painters

*Source: Ruiru sub-county: Business Licensing Department*



## Appendix 7: Research Letter



Kenya School of Revenue  
Administration



KENYA REVENUE  
AUTHORITY

ISO 9001:2015 CERTIFIED

REF: KESRA/NBI/036

14<sup>th</sup> September, 2020

TO WHOM IT MAY CONCERN

**RE: REQUEST FOR RESEARCH PERMIT:**

NAME ; MIKE NJOGU THUKU

REG. NO.; KESRA/105/0075/2017

This is to confirm that the above named is a student at Kenya School of Revenue Administration (KESRA) Nairobi Campus pursuing Masters in Tax & Customs Administration.

The named student is undertaking Research on **“Determinants of Consumption Tax compliance among Micro and Small Enterprises in Ruiru Town.”**

The purpose of this letter is to request your good office to assist the above student with the information to enable him work on his project.

Thank you.

*M*  
Dr. Marion Nekesa PHD,  
Head Academic Research  
KESRA



P. O. Box 48240 – 00100, Nairobi

Email: [kesratraining@kra.go.ke](mailto:kesratraining@kra.go.ke)


Tel: +254715877535/9




*Tulipe Ushuru Tujitegeme!*

KENYA  
VISION 2030

Appendix 8: Research Permit


**REPUBLIC OF KENYA**  
 NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

**Ref No: 987784**  
**RESEARCH LICENSE**  
  
**Licence No: NACOSTI/20/7047**  
**Applicant Identification Number**  
**987784**

**This is to Certify that Mr. Njogu Mike Thuka of Kenya School of Revenue Administration, has been licensed to conduct research in Kiambu on the topic: DETERMINANTS OF CONSUMPTION TAX COMPLIANCE AMONG MICRO AND SMALL ENTERPRISES IN RUIRU TOWN for the period ending : 12/October/2021.**

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**Director General**  
**NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION**  
**Verification QR Code**
