

**FACTORS INFLUENCING VALUE ADDED TAX COMPLIANCE AMONG  
HOTELS IN NAKURU COUNTY**

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## DECLARATION

### Declaration by Candidate

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## **DEDICATION**

This project is dedicated to Mr. Martin Wanyama, thank you for your numerous efforts in helping me realize and acquire education. I also dedicate it to all taxpayers who are striving for an accelerated economic development in Kenya by embracing a tax compliance spirit.

## ABSTRACT

Being a major source of government revenue in most countries, taxation improves the country's service provision and aids in economic development. As such, the applicable laws in any jurisdiction require taxpayers to comply by paying taxes to the government. In Kenya, the value added tax revenue collected by KRA does not match expectations. The mis-match is particularly great in the hotel sector, hence this study. The study in this regard aimed to determine the factors influencing VAT compliance of hotels in Nakuru County. The objective of the study was to establish whether trust, social norms and perceptions affect VAT compliance among hotels. Nakuru was selected for study because it is a hotspot for hotels in the country. The data reviewed that led to the problem statement for the study covered three years between 2016 and 2019. The Social Contract Theory, Theory of Planned Behavior and the Cognitive Dissonance Theory were used to explain the study variables. The study used an explanatory research design to determine the causal relationship between trust, social norms, perception and VAT compliance. The target population of the study included 1076 hotels in Nakuru County. With stratified random sampling, 284 hotels were selected for study. Piloting of the questionnaire was carried out in Narok Town to test its reliability and validity. The study collected primary data which was tested for validity and reliability and then analysed. Descriptive as well as inferential statistics were generated to determine the association between variables, with the measurement of variables based on 5-point Likert Scale. Correlation and regression analysis provided an understanding of the relationship between the study variables with findings indicating that hotel VAT compliance in Kenya remains a function of taxpayers trust in the revenue authority, their social norms and perceptions about the government with Beta coefficients of 0.370, 0.716 and 0.462 respectively with  $p < 0.05$ . When combined, R Square of 0.504 at  $p < 0.05$  imply that the independent variables explained 50.4% of any change in VAT compliance. Multiple linear regression analysis was done and yielded the regression equation of the study. The study concluded that trust, social norms and perceptions have a significant influence on VAT compliance among hotels. The study findings had varied implications and confirmed the prepositions of the theories of planned behavior and cognitive dissonance. It also highlighted to policymakers the need to improve VAT compliance through enhancing a trust relationship. Hotel practitioners as well should initiate positive tax compliance norms while the government ought to exercise a cautious use of tax resources in effecting services and projects necessary for the country. The study suggested that considering additional factors for example power of the revenue authority will add to the explanation of VAT compliance, an insight for future research.

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**ABBREVIATIONS AND ACRONYMS**

|                |  |
|----------------|--|
| <b>CDT-</b>    | Cognitive Dissonance Theory                            |
| <b>DPP-</b>    | Director of Public Prosecutions                        |
| <b>EACC-</b>   | Ethics and Anti-Corruption Commission                  |
| <b>ETRs-</b>   | Electronic Tax Registers                               |
| <b>GDP-</b>    | Gross Domestic Product                                 |
| <b>ILO-</b>    | International Labour Organization                      |
| <b>IMF-</b>    | International Monetary Fund                            |
| <b>KATO-</b>   | Kenya Association of Tour Operators                    |
| <b>KIPPRA-</b> | Kenya Institute of Public Policy Research and Analysis |
| <b>KNBS-</b>   | Kenya National Bureau of Statistics                    |
| <b>KRA-</b>    | Kenya Revenue Authority                                |
| <b>OECD-</b>   | organization for Economic Cooperation and Development  |
| <b>PwC-</b>    | Pricewaterhouse Coopers                                |
| <b>SPSS-</b>   | Statistical Package for Social Sciences                |
| <b>TRA-</b>    | Theory of Reasoned Action                              |
| <b>VAT-</b>    | Value Added Tax  |

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## OPERATIONAL DEFINITION OF TERMS

**Hotel** -A hotel refers to a facility used for the reception of guests and travelers desirous of dwelling or sleeping therein (Tourism Act, 2011). A hotel in this study referred to such a facility (excluding Bars) registered in Nakuru County by the Tourism Fund as at January 2020.

**Perception about the Government**-Based on the definition of perception about the government Jimenez (2013), it refers to how taxpayers provide an appreciation or even oppose the existing tax system and the actions of the government towards political, economic and social issues. In this study, implies the taxpayers' appreciation of the government's position on public spending, corruption, public debt etc.

**Social Norms**-Social norms imply the social pressure surrounding the taxpayers that compliance is mandatory. Similarly, social norms for tax can mean the extent to which people surrounding the taxpayers approve compliance (Damayanti et al, 2015). Social norms here mean the behavioral influence of family, friends and peers on VAT compliance.

**Trust in the Revenue Authority** -Kirchler et al, (2008) explained trust to mean an overall judgement of persons and social clusters that revenue authorities are kind and work constructively for the common good. In the study, trust means the judgment of VAT taxpayers about the authority's benevolence as measured by professionalism and taxpayer interaction.

**VAT Compliance**-Tax compliance is the readiness a taxpayer to act in harmony with the 'spirit' of tax laws and government in the absence of enforcement activities (Natrah, 2013). VAT compliance in this study refers to the taxpayers' willful actions that regard adherence to the Kenyan VAT law which are operationalized as registration, filing of returns and payment of taxes.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Overview**

The chapter discusses the background of the study with focus on the dependent variable VAT compliance and the independent variables trust, social norms and perceptions. The statement of the problem, study objectives, hypotheses, significance as well as scope of the study are discussed in this chapter.

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

While the budgetary needs of most countries are pegged on taxation and external funds, taxes seem to be the sole biggest source of revenues required to finance both government expenditures. This has led to governments exploring available opportunities for improving tax compliance (Jimenez, 2013). In Europe, this was supported by Richard (2019) who averred that revenue agencies have gained effectiveness in dealing with tax abuse since the 2008 economic recession in Europe. According to Richard, there is evidence that the EU tax gap resulting from non-compliance might hit €825 billion per annum. Non-compliance was equally noted by Violeta and Austėja (2016) as a pressing concern throughout Europe and it impairs the realization of optimal social welfare policies. World statistics indicate an increase in tax revenues particularly the advanced economies with a widened focus on corporate and consumption taxes that saw the OECD average for tax revenue to GDP ratio hit its highest of 34.2% in 2017 (OECD, 2019).

In Africa, raising sufficient domestic revenue has had a primacy for most African nations (Drummond as reviewed Merima et al, 2013). Although the compliance problem is a perpetual and emergent universal issue, many scholars submit that developing nations, most of them Sub-Saharan African countries were hit the hardest

(Cobham 2005; Fuest and Riedel as reviewed by Merima et al, 2013). This was also supported by Abdulsalam et al (2014). Tax revenue statistics in Africa reflect a similar trend though with stagnation. Brahimia & Gandhi (2018) indicate a relatively little capacity for tax in sub-Saharan African nations at 20% of Gross Domestic Product, at average. Kenya has been experiencing a positive and stable growth in tax revenues over the recent past (KNBS, 2019), with the KRA spearheading the revenue needs of the government. Cap 469 of the Kenyan laws established the authority, it collects over 95% of the nation's steady revenue. It administers various revenue acts with the main ones being the Income Tax Act (Cap 470), the VAT act 2013, Excise Duty Act 2015 and the East Africa Community Customs Management Act (2004).

The economics on tax compliance can be assessed in different viewpoints: importantly can be regarded as an issue of law enforcement, public finance, ethics and taxpayers' motivational factors (Ndumia, 2013). Plentiful factors explain the tax non-compliance behavior. The supreme view however, in research as well as practice of tax is that non-compliance is due to the taxpayers' pursuit of self-interests (Feintein et al, 1998). From the taxpayer viewpoint, taxes are a cost and thus are to be avoided or reduce. According to Kumari (2014), payment of taxes introduces two wider social costs that is the efficiency and operating costs. Operating costs are administration and compliance costs while efficiency costs result from the tax-caused changes in product prices, biased choices by both producers and consumers subsequently, it is unlikely that taxpayers comply without certain enforcement by the revenue authorities.

The most common remedies for non-compliance are centered on enforcement actions which include audits and criminal sanctions with the payment of fines and penalties. This is however a situational measure since it has to be undertaken in every occasion of non-compliance. The paramount need for tax compliance has therefore meant that

authorities allocate resources on compliance facilitation programs which are mainly automation and taxpayers' training. This is envisioned to create a mindset that compliance is not due to the need to avoid a punishment. To embrace a tax compliance spirit, there is a necessity for intrinsic motivational approaches to taxpayer compliance.

### **1.1.1 Tax Compliance Factors**

Compliance arises from the taxpayers' intention to comply, and the taxpayers' solid will to fulfil their tax responsibilities is determined by various factors. For instance, social norms for tax compliance, and the perception of the taxpayer on the administration actions as well as social pressures affect tax compliance (Damayanti et al, 2015). Tax agencies in the world unceasingly advance new ways to improve tax collection and to rely on taxpayers' voluntary compliance (Netshaulu, 2016). Murphy (2004) reasoned that strategies focusing on reducing the level of distrust between taxpayers and revenue authorities seem be effective in achieving voluntary compliance. The Assumptions on the of trust and power dynamics using the slippery slope model (Hofmann et al, 2015) have too been used by revenue authorities in the world to enhance a positive interaction and to replace the antagonistic relationship with a confidence one. This implies an overriding significance of taxpayer's trust in the revenue authority.

While approaches in fiscal psychology led to important milestones in explaining the causes of compliance to tax, they were however far from supremacy in tax studies (Onu & Oats, 2015). Past research prove dominance of deterrence aspects such as the probability for audit and fines and not on social aspects of tax (Kirchler, 2008). Social norms of taxpayers exert a significant influence on peoples' intention to declare correctly their incomes. Compliance behavior for tax has a social dimension and the



attitude of peers are a strong predictor of such behaviors. If taxpayers appreciate that those around them find it acceptable to tax non-compliance, they will unlikely report non-compliance (Kasper, 2016). According to Alm, Bloomquist & McKee (2017), taxpayers will more possibly file and report their tax obligations when they believe that their counterparts are doing the same. The interaction of taxpayer norms has a positive significant correlation to tax evasion (Basley et al., 2019).

Perceptions in government is also said to affect the level of non-compliance by accelerating or countering tax evasion. According to Sellywati & Mohd (2015), the perception about the tax system fairness and generally about the administration has an influence on the taxpayers' compliance behavior. Alm, Martinez-Vazquez & McClellan (2014) argue that governments pursuing an increase in tax yield must make a commitment to warrant an honest tax administration that is free from negative perceptions. Such perceptions have an effect of lowering the efficiency of a tax system, eroding the legitimate tax collections, reducing the willingness of citizens to pay their tax share and thus, reducing revenues from tax. Arifin, Chris & Binh (2017) also noted that a perception of high corruption levels for example adversely impacts taxpayer attitude and compliance norms in reporting true income. Gilligan and Richardson (2005) researched avered that there is no universal relationship of the perception of tax fairness and tax compliance. Yee (2016) researched the taxpayer perceptions of evasion from tax, finding that morality of tax significantly influences perceptions on tax evasion and hence compliance. Nkundabanyanga (2017) studied perceptions and tax compliance and found out a significant relationship between the two. The research findings on the impact of perceptions on compliance are however not universal. A South African study of compliance in the mining industry disassociated perceived equity and fairness, perceived corruption and the efficiency of

the tax authority from tax compliance as they were found to have an insignificant influence (Netshaulu, 2016). Similarly in Ethiopia, these variables were not significantly correlated with tax compliance (Getacher & Abera, 2014).

### **1.1.2 Value Added Tax Compliance**

Tax reforms and modernization programs were established in 1986 in Kenya in order to widen the nation's revenue base. Those reforms led to the introduction of VAT in 1990 to replace the ILO recommended sales tax which had been charged since 1973. Value Added Tax refers to tax on value created or added to a supply by the seller, (Radhakrishanan, 2008). It is an indirect tax, a consumption tax applicable on the sale of supplies at all levels of production and distribution. Value added tax revenue performance is dependent on factors such as the rate of tax, the nature of consumer behavior that influences spending and most importantly the level of compliance by the taxpayers. Taxpayers registered for VAT act as collection and payment agents of KRA. KRA imposes VAT according to the laws of the Value Added Tax Act 2013. Simply based on value addition, taxpayers suffer nothing on profits in remitting taxes since the mechanism provides for deduction of input taxes (VAT Act 2013 Sec 17). According to the VAT Act, first schedule (2013), the tax is not charged on supplies that are exempt and equally, no deductions for input Value Added Tax on such supplies is permitted. The system also contains zero rated supplies (2nd schedule of VAT Act, 2013). Registered suppliers charge VAT at 0% on these supplies and are allowed to deduct input VAT paid on purchases (Sec 17 of VAT Act, 2013). The general view is that the government formulates the policies and VAT laws while KRA superintends the implementation of the laws. VAT accounts to about 27% of the total tax revenue and 23% of total government revenue (KNBS 2019).

Different scholars have expressed their understanding and perspectives about compliance to tax. Kirchler et al, (2008) acknowledged a simple definition of tax compliance to mean ability, and the willingness of a taxpayer to pay taxes. These are based on the legal environment, ethics as well as other situational influences that vary with place and time (Rizal & Fariq, 2011). Mohd et al (2011) defines tax compliance is the fulfillment of tax laws, declaration of the correct income & expenses and the payment of taxes on time. Consequently, VAT compliance implies the ability of a taxpayer, and the willingness to follow the VAT law of a particular jurisdiction. VAT compliance has a varied measure theoretically, it may be based on discrete compliance types such as registration, filing and payment compliance. In 2016, around 162 countries in the globe had implemented the VAT system (World Bank & PwC, 2017). The wide use of VAT is partially because of the effectiveness and efficiency of the system in collecting tax revenues compared to other indirect taxes. VAT is a vital tax and according to Ndumia (2013), it has moved from being a preserve of greatly developed nations to become the fundamental constituent in the tax systems of both developed and developing nations.

From the foregoing discussion, value added taxes have a momentous role in championing development in the country. Non-compliance to VAT therefore hinders revenue collection and eventually causes inefficiency in government activities. It can be referred to tax evasion, the illegitimate and intentional actions of taxpayers undertaken to reduce their tax liability (Alm, 2012). It is achieved through criminal acts of omission such as failure to pay for VAT and acts of commission like the overstatement of expenses, mis-declaration of sales, and mis-classification of supplies to lower rates of tax and the claiming of deductions other than for business expenses. Taxpayers can also reduce their VAT liability by abusing the credit and refund

mechanism. Tax avoidance or reduction however refers to a legal minimization of liabilities in tax by taking advantage of the tax laws, for example like splitting income and postponing payment of taxes (Martinez, 2001). Despite the upward trend in VAT revenue collection, its performance has not matched expectations.

### **1.1.3 The Hotel Industry in Kenya**

Kenya has a vivacious hotel sector, which lays a significant importance in the country's economy providing momentous socio economic benefits. The industry which houses accommodation and food services sector was hit with VAT tax of 16% by the VAT Act 2013 (KRA, 2014). The Kenya Association of Tour Operators (KATO, 2014), reported that Kenya received 1.16 million tourists in the 2012/13 fiscal year, an 8.8% decrease from the prior year and the second consecutive year that visitors and income had fallen. The sector later sustained an upward growth momentum that started in 2016 to rise by 16.6% in 2018 (KNBS, 2019). According to the 2019 economic survey report, the performance of the sector was aided by an environment of enhanced security atmosphere in the country coupled with international visits to Kenya for international conferences. In addition, the sectorial growth was also reinforced by relaxation of travel advisories, increased flight frequency and routes, and among other factors the inception of the Kenya-USA direct flights in October 2018. According to PwC industry report (2019), the market in the hotel sector in Kenya exceeded forecasted 2018 results. Hotel rate of occupancy was 53.2% against an expected 49.3% while guest nights grew from 3.6 million to 3.9 million. Room revenues were significantly above projections 5.7% projected increase. The GDP attributed to the food and accommodation services depicted a stable upward trend growing from 49,151.4 million in 2014 to 66,630.1 million in 2018, refer to Table 8.1.

The economics of taxes and their impact on demand for goods and services is straight forward. Consumption taxes for instance VAT have a direct effect on the prices of goods and services, i.e. they increase price and therefore a likely decrease in demand for affected commodities. A domineering factor in choice of the tourist destination as noted by Markota (2014) is the cost of overnight stay and food. Tourists have a high affinity to select countries with less disadvantageous costs and Markota avers that the rate of VAT influences the costs, and in the same manner the aggressiveness of every country. This implies that countries should be aggressive enough to lower duty rates with a goal to attract in tourists. Germany, for instance, lowered the VAT rate on lodgings and eateries from 19% to 7%, and France from 19.6% to 5.5% (Tripadvisor, 2014).

An overview led by KATO (2014) ranked Kenya as the most costly travel destination amongst its EAC peers, with industry operators increasing the cost of the tour products to accommodate VAT changes. However, figures from the industry give an apparent conclusion that the increase in VAT rate was gasped and accepted over time, or otherwise approved in the sector. This study dug deeper to bring an understanding of the compliance levels of participants in the industry as created from their own social setting.

## **1.2 Problem Statement**

Public revenue administrators about the globe try to significantly increase the heights of un-enforced compliance (Kirchler et al., 2014). In many countries in the world, this objective is impaired by tax avoidance and evasion malpractices of the taxpayers and hence creating a gap between the probable and actual tax revenue. The concern for compliance to tax is a global issue and revenue authorities find it difficult to have all taxpayers comply with the tax requirements (James and Alley as reviewed by Gobena,

2017). As noted by Murphy (2004), handling non-compliance has been challenging to revenue authorities across the world over the past several decades. In Kenya, there have been significant Value Added Tax (VAT) administrative reforms since its introduction in 1990. Among the main initiatives were the introduction of Electronic Tax Registers (ETR's) for use by VAT taxpayers in January 2005 (ICPAK, 2016), and the overhaul of the VAT Act in 2013. These reforms championed the actual VAT revenue growth over time.

It has been observed however, that Value Added Tax compliance level has consistently remained low without meeting the revenue authority's targets. This is against a background of sustained sectorial growth, specifically the hotel industry which has been growing steadily over time. Trend analysis by KNBS (2019) reveal the sector grew by 16.0% in 2018 compared to a of 12.4% growth in 2017 while VAT contribution over the same period in the sector narrowly grew by 4.2% (KRA, 2018). Kenya Revenue Authority anticipated a 65% compliance rate in Value Added Tax, and to grow VAT proportion of all regular revenue to 35% in 2018 (KRA, 2015). In contrast to this, the national treasury statistics as analyzed by KNBS (2019) are indicative of continuously missed VAT targets in all the period under review, a major concern for stakeholders particularly the revenue authority and the government. In the fiscal year 2017/2018, the actual collection from VAT amounted to Kshs. 356,856M against a target of Kshs. 412,688M, table 8.2. This was 23% of total revenue against the authority's anticipation of 35%. In 2018/2019 a VAT collection of Kshs. 435,886M was achieved against a budget of Kshs. 464,215M. A drawback to the VAT administration in the hotel sector was occasioned by KRA's loss in a legal petition filed and ruled in the favor KUDHEIHA over disputed VAT on service charge (KUDHEIHA V KRA, 2014).

The consequences of non-compliance in tax have motivated researchers and policy makers to put emphasis on tax non-compliance. Joint studies carried out by KIPPRA, KRA and the ministry of finance as reviewed by Masinde and Makau (2010) showed that the payment of VAT was at lowest compliance, 55% and 65% for returns filing. Most studies have focused on deterrence measures, compliance costs and taxpayer education. Research in tax compliance in hotel sector is limited. It is therefore against this background that the research intends to detail knowledge on VAT compliance amongst the hotel industry.

### **1.3 Research Objectives**

#### **1.3.1 Main objective**

This study was guided by its broad purpose which was to determine the factors influencing Value Added Tax of compliance among hotels in Nakuru County.

#### **1.3.2 Specific objectives**

The following specific objectives directed the study:

- i) To establish the influence of taxpayer trust on VAT compliance of hotels in Nakuru County
- ii) To investigate the effect of social norms on VAT compliance of hotels in Nakuru County
- iii) To examine the effect of taxpayer perceptions about government on VAT compliance of hotels in Nakuru County

#### **1.4 Research Hypotheses**

**H01:** Taxpayer's trust has no significant influence on VAT compliance of hotels in Nakuru County.

**H02:** The social norms of taxpayers have no significant effect of on VAT compliance of hotels in Nakuru County.

**H03:** Taxpayer's perceptions have no significant influence on VAT compliance of hotels in Nakuru County.

#### **1.5 Justification of the Study**

There has been a plethora of studies in the recent past with major focus on elements of tax compliance. Globally however, aspects of compliance elements like trust, social norms and perceptions have been studied, with plentiful research presenting mixed findings on the relationship between the relevant variables. Major findings from research concentrating on the trust and tax compliance support trust in influencing un-enforced compliance (Kirchler et al., 2014). The social norms (Sasmaz, 2019; Raul and Aldo, 2019) and perceptions about corruption (Tjen and Chris, 2017; Bertinelli, Bourgain and Léon, 2020) and government spending (Sritharan & Salawati, 2019; Palil & Mustapha, 2011) found a positive influence of these variables on tax compliance. Reverse findings were established as trust (Mahadianto and Astuti, 2017) and perceptions (Netshaulu, 2016; Getacher & Abera, 2014). These mixed findings provided a study opportunity to evaluate the effect of similar variables on VAT compliance in an African context.

The influence of taxpayer trust, social norms and perceptions about government on compliance lacked an empirical backup in the country and the region. Around the globe, inquiries have been broadly conducted in the advanced societies such as the western world and Asian nations while scanty literature is documented among the



African nations such as Kenya. Considering the different context of the earlier research therefore, there was need to document a literature upon which policy decisions and further research in Kenya and Africa will be grounded.

Furthermore, the variables of the study were assessed in singularity in many researches for instance trust and tax compliance (Wahl et al, 2010; Gobena, 2017), social norms and tax compliance (Sasmaz, 2019; Ayodele et al., 2019) and perceptions (Jimenez, 2013; Sritharan & Salawati, 2019). This study offered an exhaustive thought on the plurality of these variables and their impact on compliance. A dearth of knowledge in the literatures on these variables coupled with contextual gaps agitated this research. Thus, this research was needed to establish and create a thoughtful consideration of the relationship between trust, social norms and perceptions, and VAT compliance in the hotel context.

### **1.6 Significance of the Study**

As much as enforcement increases tax compliance, it can be damaging to the un-enforced compliance which is taxpayer induced. As such, the need to improve compliance by focusing on taxpayer factors is overriding across the industries. The study established this factors in the hotel industry and created awareness of the same to the relevant stakeholders in order to enhance prudent tax decisions. The findings of the study brought to understanding the taxpayer aspects that should inform policy decisions by KRA and the government as a way of heightening the VAT revenue performance in the hotel sector.

In the global context, the paper contributed to tax compliance literature by recording observations from an African perspective. Locally, the study documents vital factors that influence tax compliance in Kenya, it will trigger future advancement in research

on VAT compliance by highlighting key areas which need further research and thus expanding the body of knowledge.

Managers tend to undertake business practices that are unlikely to result to payment of more taxes. The study highlighted managerial issues of interest in tax administration for hotels, which calls for the hotel management's attention so as to boost tax compliance by these enterprises.

### **1.7 Scope of the Study**

This study focused Nakuru County hotels. Nakuru County is considered a major business hub with its contribution to GDP being consistently ranked second after Nairobi, 517,462 million in 2017 (KNBS, 2019). The economic survey also outlines the hotel industry to have been growing over time despite the price effect of VAT, hence selected for this study. The target population consisted 1076 hotels in the County (Tourism Fund, 2020), and 284 hotels were sampled. The study was undertaken in 2020 and it reflected three factors influencing VAT compliance of hotels (trust, social norms and perceptions). For accuracy, the data reviewed that led to the problem statement covered three fiscal years that is 2016/2017, 2017/2018 and 2018/2019.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The chapter highlights the conceptual review and a theoretical background upon which this study rests. The theories explain tax compliance as based on the dynamics of trust, social norms and perceptions. A review of scholarly works providing an empirical basis for the study variables follow. The study also presents the criticism to the literature, and finally a summary of the literature reviewed as well as gaps identified.

#### **2.2 Conceptual Review**

The IMF and World Bank advocated for VAT as a solution to meeting the developmental challenges presented by low revenue levels in developing countries especially sub-Saharan nations (Ruiz as reviewed by Kirchler, 2010). It is however relevant to note that VAT is subject to administration challenges just like other taxes. Alm, Martinez-Vazquez & McClellan (2014), maintain that even hidden taxes in the manner of VAT present many chances for evasion since enterprises may not register in the obligation, declare less turnover, and can corrupt invoices to necessitate the underreporting of tax liabilities. Many revenue authorities in the sub-Saharan region have tried various ways to enhance VAT compliance for example by demanding the use ETRs machines (Tesafa & Muhammad, 2015). Enforcement measures have been applied to increase compliance even when their effect on voluntary compliance is negative.

Evidence from past studies prove that compliance increases significantly with huge fines and also when the audit probability is high. To the contrary, some studies potent that economic deterrence inadequately explains tax compliance levels due to limited

enforcement resources at the authority's disposal (Alm, et al., 2012). Kirchler et al. (2008) equally supported the view that huge and punitive fines results to increased tax avoidance

Tax education has also been a factor of focus in tax compliance studies (Rizal et al, 2011; Natrah, 2013 and Dlamini, 2017). Other factors such a compliance cost, attitudes and tax rates have also been studied. This study analyses taxpayer trust, social norms and perceptions about the government as key motivators of tax compliance. These are discussed in detail in this chapter.

### **2.2.1 Taxpayer Trust**

Trust refers to the strong confidence in an entity's ability to act as required (Frag as reviewed by Kirchler et al, 2012). Their view is that the strong confidence is however not any fixed value linked with the firm, but is rather based on its behavior in a specified time. Trust is necessary for voluntary compliance that is founded on cooperation between taxpayers and the revenue authority, together with fair policies and procedures. Agreeing with Murphy (2004), trust can be assessed on the basis of whether the revenue authority misleads the taxpayers or not, whether it acts in the interest of all citizens, whether it administers the tax system fairly, whether it is open and honest in its dealings and generally whether it meets its obligations. Trust can also be measured by the authority's interaction and treatment of taxpayers, as used by Widuri et al., (2019).

As it can be noted from the work of Gobena (2017), trust creates voluntary compliance, while power safeguards enforced compliance. According to Kirchler et al., (2008) revenue authorities always show low trust level in a taxpayer and tend to consider that enforcement activities can solve non-compliance difficulties (the

slippery slope framework is shown in appendix 4). In light of this, Gobena (2017) describes the taxation environment in developing nations to often feature a robbers and cops association between the revenue authority and the taxpayer. According to Alm and others, (2012) therefore, different approaches to handling tax evasion require an understanding of psychological variables as critical factors in provoking voluntary compliance as opposed to economic deterrent factors. When taxpayers and revenue authorities work together in mutual trust, taxpayers perceive the revenue authority to be treating them courteously hence making them to voluntarily pay taxes (Rizal et al., 2017). According to Rizal and others, taxpayers with more trust in the revenue authority are able to help increase the authority's power by acting as whistleblowers in tax evasion cases.

The psychological reactance of taxpayers towards the revenue authority may make them to resist compliance. Kirchler et al. (2008) observed an antagonistic relationship between the revenue authority's coercion and trustworthiness. This view was also supported by Gobena (2017) who averred that over-reliance on enforcement measures will destroy trust and incite an aggressive evasion of taxes. Sasmaz (2019) attribute compliance to a myriad of non-economic factors for instance trust in revenue authorities. In light of the equilibrium of these two forces, it is important for the revenue authority to remain cautious in sustaining and emphasizing an honest image. Khasanah et al., (2019) argues that in order to nurture the desired behavior, the revenue authority has to go beyond motivation resulting purely from deterrence. Strategies focused on reducing the level of distrust between the revenue authority and taxpayers may particularly prove to be effective in achieving voluntary compliance. This is based on a belief that if regulators are perceived to be acting in the best

interest of all, then taxpayers will have trust in the motives of the authority and thus comply voluntarily.

According to the foregoing discussion, tax compliance and trust in the revenue authority are inseparable. Widuri et al., (2019) supports the idea that trust in the revenue authority has an influence on role of procedural justice in encouraging voluntary compliance by taxpayers. Their argument is that trusted revenue authorities cannot abuse their authority but will encourage taxpayers to obey tax regulations hence achieving a voluntary compliance. Previous studies as reviewed later in this study show a substantial influence of trust on VAT compliance. Compliance in taxes does not only related to taxpayers' trust in the revenue authority, but the social norms of taxpayers as well.

### **2.2.2 Social Norms**

As in social psychology, social interactions can have a weighty bearing on one's actions. Kallgren as reviewed by Salleh and Kassim (2017) observed that norms exist in all social situations, even though their impact is not salient to group members. As such, norms have significant implications for behavior in nearly all situations.

Norms are some of the best predicting tools of tax compliance behavior. Causal models of the relationship between attitude and behavior have been empirically tested to explore the psychological processes that intervene between the initiation of an attitude and a behavioral response that follows. One such model is the Ajzen's theory, for planned behavior, which looks at one's attitude and subjective norms, antecedents to the intention for any behavioral actions. Kirchler et al, (2012) argued that the relationship between norms for compliance and the actual compliance is moderated with the individual's link to his/her group reference and/or society. Therefore, the

communication of social norms of the taxpayers, while emphasizing the significance of compliance to tax, a civic responsibility effectually shapes tax compliance.

Norms in social psychology are grouped into four, that differ in the extent to which they influence individuals' conformity to a group: (a) personal, (b) injunctive, (3) descriptive, and (4) subjective. Personal norm are internal to an individual while the last three (the focus of this study) are social norms. According to Manstead (2000), moral or Personal norms are alleged to originate from group norms or social norms, but they become internalized, and as such affects individual feelings, thoughts, and behavior independently from the social or group context. Social norms on the other hand relate to the society's impact on the behavior of individuals (Wenzel as reviewed by Aronson, 2010), and they influence tax compliance choices in varying degrees. According to Aronson et al. (2010), conformity occurs when a person changes behavior under the influence of others, whether real or imagined. Aronson suggest that the inspiration of others is always revealed in the group norms i.e. the formal or informal group rules guiding the values and behavior in the social group. Being a component of the culture of every society, they are an important ingredient of the compliance intentions (Posner as reviewed by Aronson, 2010) by reason that they establish constraints on the behavior of individuals beyond the budget, legal and information constraints that are normally the focus of economists. This study focuses on descriptive and subjective norms.

Descriptive norms concern actual behaviors of other group members (Aronson and others, 2010), and they influence individual behaviors in that group. Such norm are founded on real behaviors of group members who are often relied on by individuals in situations when the appropriate behavior is uncertain (Festinger 1957). Descriptive norms guide individuals' behavior in varied situations and according to Milgram as

reviewed by Jimenez (2013), they can induce performance of a behavior that otherwise would not be justified. As such, descriptive norms may motivate evasion or compliance with tax laws by justifying individuals' actions with group actions. For example, taxpayers may rationalize tax evasion if they are certain that everyone else evades tax. Also, people would wish to behave in a manner that has been proved operative for their counterparts (Cialdini and Trost as reviewed by Bobek, 2007). For some, such actions are those they think results to the biggest gain and few legal approvals. These norms therefore explains the behaviors of other people and suggests behaviors that were successful to others (Cialdini & Trost as reviewed by Bobek, 2007).

The last category of norms are subjective norms. They represent the insight of how those close and important people would approve or disprove one's actions or behavior (Ajzen 1991). Subjective norms explain the behavioral expectations of those close to an individual, or simply put, peer pressure. They capture perceptions of what the "significant others" expect the person to do. Such norms can be useful to individuals in determining whether evasion or compliance with tax laws will be approved or disapproved by closest group. Acceptable ethical behavior is recognized by Tan, Salleh and Kassim (2017) as what is conventional among the group members, which binds the members of the group in following group norms.

### **2.2.3 Taxpayers' Perception**

Perception is defined as a process through which individuals recognize, interpret and respond to sensory information from the environment. Different individuals are therefore likely to develop varied attitudes towards the information they get, and this information has influence on their apparent actions or responses. With regard to tax, a potential impact of taxpayers' knowledge about public expenditures on tax



compliance exists (Djawadi as reviewed by Gadenne, 2016). Further, Gadenne (2016) argues that increased funding from grants results to improved public service but also possess a question as to whether the government will spend the tax revenue in different ways from the expectations of the citizens. While such expectations may not be met, tax compliance behavior will normally reflect the quality of the government and the perceptions about its bodies to which the taxpayers are contributing (Korutaro et al., 2017).

Perceptions about how fair the system of tax is, and generally about the administrative government influence the taxpayers' intention to comply with taxes (Sellywati & Mohd, 2015). Individuals holding positive attitudes to tax, commonly believe in equality and fairness in the tax system and its administration and thus they comply with tax. Prior research indicate that corruption in government increases the level of non-compliance by accelerating tax evasion (Alm, Martinez-Vazquez & McClellan, 2014).

Corruption perceptions damage compliance behavior among taxpayers since they erode the willingness of taxpayers in contributing just shares of revenue (according to Jahnke as reviewed by Melgar et al, 2010) and nurtures beliefs of doubt in taxpayers in the associated government authority (Melgar and others, 2010). (Arifin, Chris & Binh, 2017) noted that corruption perceptions and tax non compliance behavior presents major problems in the success of developing countries. Such studies are suggestive of commitments by the government to warrant an honest and corruption free tax administration in the pursuit of an increased tax yield. Tax compliance should thus be sustained, for instance, by a strong cooperative association between the government and citizens who are taxpayers, which eventually will lead to improved voluntary compliance.

#### 2.2.4 Value Added Tax Compliance

Value Added Tax denotes a tax on value created or added to a supply by the seller, (Radhakrishanan, 2008). It is an indirect tax, a consumption tax applicable on the sale of supplies at all levels of production and distribution. Value added tax revenue performance is dependent on factors such as the rate of tax, the nature of consumer behavior that influences spending and most importantly the level of compliance by the taxpayers. Taxpayers registered for VAT act as collection and payment agents of KRA. KRA imposes VAT according to the provisions in laws relating to VAT Act, 2013. Simply based on value addition, taxpayers suffer nothing on profits in remitting taxes since the mechanism provides for deduction of input taxes (VAT Act 2013 Sec 17). According to the VAT Act, first schedule (2013), the tax is not charged on supplies that are exempt and equally, no deductions for input Value Added Tax on such supplies is permitted. The system also contains zero rated supplies (2nd schedule of VAT Act, 2013). Registered suppliers charge VAT at 0% on these supplies and are allowed to deduct input VAT paid on purchases (Sec 17 of VAT Act, 2013). The general view is that the government formulates the policies and VAT laws while KRA superintends the implementation of the laws.

#### **2.3 Theoretical Review**

This research borrows from the existing theories and data base of knowledge on tax compliance. The social contract theory, theory planned behavior and the cognitive dissonance theory were found to shape tax compliance and are believed to influence the present study.

### **2.3.1 The Social Contract Theory**

The theory was coupled development of John Locke, Thomas Hobbes and Rousseau Jean (1632-1704). According to this theory, people originally lived in a natural state of nature with no laws or a government to regulate them. According to Thomas, the natural desire for order and security by man led to the establishment of a contract that ensured man surrenders rights and freedom to a sovereign authority for the preservation of peace, life and prosperity for all people. Locke's proposition drew attention to the purpose of the law and the government in upholding the rights of people. Rousseau who views the social contract as a hypothetical construction of reason and not a historical fact argued that the first state of nature was good and with equality among people except over time when humanity faced changes. That families were established and led to small communities with division of labor and inventions easing life. With comparisons between family units and communities, public values arose that caused envy, shame, pride and contempt. The invention of private property according to Rousseau constituted the evolution of humanity to a state of competition, vanity, greed and inequality hence the need to surrender rights to the community as a whole for the superiority of the general will. Social contract theory is relevant and applicable to modern societies.

The theory puts emphasis on the rights and obligations of all members of the society (Hassan, 2012). The government undertakes to protect the rights and the freedoms of the citizens while citizens commit to obey the government and contribute money to fund the government's activities. 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. Hotel establishments are equally citizens by law and by reason of the social contract, they

have an obligation to pay taxes to the government. They similarly hold expectations that the government creates an enabling environment for their businesses to thrive. The theory is useful in explaining hotel tax compliance because these expectations are used to judge the performance of a government.

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 as reviewed by Scanlon (2013) 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. According to Hobbes as reviewed by Lasker (2013), the sovereign government ought to possess absolute authority. This defies the rule of law since having absolute power in one institution leads to arbitrariness. The widespread use of the social contract theory has however led to significant conclusions in research involving the state and citizens. Latest developments of the theory have adopted vibrant evolutionary approaches and incorporated the theory in shaping bargaining models (Skrms 2014 Muldoon, 2017). The theory has basically been used in tax research to explain the need for tax compliance (Goodfellow & Owen, 2018; Umar, Derashid & Ibrahim, 2017; Mangoting et al., 2015). The present study embraces the theory in explaining VAT compliance of hotels.

### **2.3.2 The Theory Planned Behavior**

The theory was an addition and improvement to the Reasoned Action Theory (TRA). It proposes that the attitudes of individuals, their norms (subjective) and their perceived control for behaviors are important in predicting intentions to engage in and eventually do the behaviors. The theory's components are four general constructs:

attitudes, subjective norms, behavioral controls and intention which are linked in the predictive formula ( $BI = A_{w1} + SN_{w2} + PBC_{w3}$ ). Attitudes comprises of views or belief regarding the impact of acting on behaviors multiplied with his/her appraisal of the impact (Ajzen, 1991). The subjective norms are viewed as the blend of supposed expectations of the significant persons and/or groups together with the intention to conform to those expectations. The inherent limitation in the reasoned action theory was based on the fact that behavioral intentions do not always result to actual behaviors, especially where a person's control over the behavior is strong. TRA was therefore modified to Theory of Planed Behavior (TPB) by introducing supposed behavior controls so as to take care of non volitional behavior in forecasting intentions as well as actual behaviors (Nurwanah et al., 2018). Perceived behavioral control is defined as individuals' perceptions regarding their ability to perform the behavior that is, the extent a person feels to have control of a behavior. The theory suggests that an individual is likely to perform or do on a behavior if their perceived behavioral control regarding self-efficacy and outcome expectancy increases. A model of the theory is given in appendix 4.

The TPB has been a dominant theoretical basis in various behavioral studies for instance alcohol drinking behavior (Norman et al., 2019), dietary behaviors (Li et al., 2019), consumer behavior in asking for sales receipts (Mwang'onda et al., 2018) and saving behavior (Satsios & Hadjidakis, 2018). The theory has proved more useful in tax compliance research. A high correlation between the constructs of the theory has been confirmed in a myriad of tax studies. Farouk et al., (2019) used the theory to study the factors that influence the payment of Islamic tax while Wahyuni et al., (2018) applied the theory in studying tax evasion behavior. Others include determinants of tax compliance (Nurwanah et al., 2018; Manchilot, 2019) and tax

compliance behavior (Abdul & Wang'ombe, 2017; Biddle, 2016). The results of these studies supported the model's proposition on taxpayer behavior being directly linked to their intention to agree to tax, a function of taxpayer attitudes, perceptions of subjective norm and the perceived behavioral control. Tax compliance is a behavior and therefore this study finds the theory useful in explaining social norms and VAT compliance variables.

Despite the universal application of the theory in explaining behavior, results of some studies indicate a limitation of this theory. While TPB is able to explain the relationship between behavioral intentions and actual behavior, it is based on cognitive processing. A limitation of cognition theories including TPB includes their fail in providing information that regard how an individual decision is made and how a decision once taken influences behaviors (Nurwanah et al., 2018). Personal decisions seem to be made under free will, which isn't a reasonable scientific justification. TPB has also not been tested in the purview of indirect taxes specially in developing nations like Kenya. Therefore, this research on VAT compliance was based on this as well as other relevant theories.

### **2.3.3 Cognitive Dissonance Theory**

This theory of human perceptions denotes a situation or condition involving conflicting beliefs, attitudes and behaviors. For instance, when people abuse drugs, (a behavior) while they have full knowledge that drug abuse has negative health implications (cognition). Developed by Festinger (1957), the theory posits that individuals possess an inner drive to maintain their behavior and attitudes in balance or to avoid dissonance in other words, described as the principle of cognitive or psychological consistency. According to Festinger (1957), the dissonance causes psychological unrest to the individual and thus becomes uncomfortable, allowing the

individual to try to maintain constant thoughts about the behavior. With the desire to achieve this consistency, the individual tries to avoid situations involving the subject causing dissonance (Festinger, 1957). The proponents of this theory therefore argued that any inconsistency in behaviors and attitudes will prompt for a change in something for example a behavior, an attitude or a belief, to deal with the dissonance. Cognitive dissonance theory is perhaps among persuasive theories particularly in social psychology and most generally in varied science disciplines. CDT has been applied in various empirical researches over time. Frewer (2017) established that the CDT may be used in forecasting how food related attitudes changes occur based on dissonance. According to Frewer, the tactic may kindle studies that would eventually result to developing effective nutritional programs communication that endorse a healthy diet. Marscall et al. (2017) applied the CDT in examining the effects of Voting Advice Applications on voting behavior in Europe. Lee (2016) examined the influences of route information on travel behaviors based on CDT which posits that exposure to new information leads dissonance. The theory has also been used to explain preferences in behavior (Acharya et al., 2018), while Tanford & Montgomery (2014) studied the impact of cognitive dissonance and social influence on travel purchase decisions. Similarly, Gofen (2015) borrowed the literature from this theory in a study of the pattern of government responses to policies non-compliance.

With a magnitude of studies on behavior, the implication of this theory in research has been wide. Regarding tax compliance behavior, the theory has been useful as well. Stewart et al, (2016) identified that taxpayers' cognitive dissonance of behaviors and beliefs will increase when they are notified that their hesitation in complying will be perceived deliberate. Other scholars (Bankman, Nass & Slemrod, 2015; Koessler et al, 2016) also appreciated the use of the theory in tax compliance studies.

While CDT is a highly established theory, it's not without its share of criticisms. Ambiguities in methodology were reported in several studies (Chapanis and Chapanis 1964). As noted by Rosenberg (1965), participants may feel as though their integrity and sincerity are being tested, which may wrongly produce findings consistent with CDT. The application of the theory was similarly general and wide, other than representing advanced economies. The proposed study therefore offers a timely opportunity for improvement in research by emphasizing the cognitive dissonance of VAT taxpayers on compliance decisions in developing countries.

## **2.4 Empirical Review**

The payment of taxes is an important civic obligation that permits government administrations to deliver services to citizens and to redistribute wealth. Even with the great role played by taxation, citizens always undertake tax responsibilities painfully (Wahl et al, 2010). Therefore, to fund public welfare, governments ought to engage varied approaches in collecting tax. Several research findings suggest that enforcement i.e. the use of audit fines, penalties and criminal sanctions are widely applied to achieve tax compliance (Feld and Tyran 2012; Hartl et al, 2015; Naibei, Momanyi and Oginda 2012). This study acknowledged several other researches, which focused specially on psychological aspects of compliance to tax like trust, social norms and perceptions as important. This segment highlights several previous scholarly works while exploring their findings. The review is presented under three broad thematic areas which are considered to have a significant effect on the of compliance level.

### **2.4.1 Taxpayer Trust and Tax Compliance**

In a study based on decreasing tax revenues in Indonesia, Widuri and others, (2019) engaged in determining the influence trust in revenue authorities among other factors



have on tax compliance. The study applied multiple regression analysis on data collected from 153 taxpayers and the results supported the presence of significant relationships between trust in authorities and compliance. The study documented realistic research evidence on the impact of trust on compliance, Indonesia. Another Indonesian study by Khasanah et al., (2019) aimed to provide research evidence as to the likely effect of trust in revenue authorities, a moderated variable on the relationship amid tax audit and voluntary tax compliance. The study applied structural equation modeling on data from 173 respondents to make conclusions. Trust in the revenue authorities was found to successfully reduce the effect of tax audit on unenforced compliance.

In analyzing tax compliance behavior among independent accounting firms, Sonnur et al., (2019) investigated the effect of trust in governments on compliance by incorporating data from 392 independent and professional accountants in Turkey. Factor analysis, correlation and regression were used in data analysis with results supporting the presence of statistically significant positive relationship between trust and tax compliance. In another study in Indonesia, conducted by Andyarini et al., (2019), tax compliance of cooperative taxpayers was assessed in a causal relationship with trust of cooperative taxpayers as an independent variable. The multiple regression results from the survey of 132 respondents revealed presence of a significant influence taxpayer trust on cooperatives taxpayer compliance.

In 2019, Saad et al. examined the basic assumption in the slippery slope structure with Asian cross-country data. Cross sectional data for 41 nations in Asia was subjected to regression analysis using Ordinary Least Squares, with findings revealing that trust significantly influences tax compliance in all nations investigated. This was opposed to the effect of power which was found weak. An analysis of the determinants of

voluntary tax compliance in the Hotel Taxpayers (Hakim & Handajani, 2017) posit that taxpayer trust and confidence in government raises voluntary tax compliance. The study empirically tested trust as well as legitimate power as influencers of voluntary compliance in hospitality companies. Partial Least Square technique was applied and hypotheses testing revealed an association of the moral obligation and trust of taxpayers, which leads to unenforced compliance. The study documented evidence of procedural justice lacking a straight effect on taxpayers' compliance other than as mediated by the trust of taxpayers.

In another study of compliance in tax, Supriyadi (2017) applied regression analysis on data from the European Value Study and World Value Surveys for 108 countries. The study found that taxpayers' trust in institutions (vertical trust) is positively correlated to tax morale. The results were however indicative of a stronger effect of generalized trust (trust in others) on the morale of taxpayers, as compared to the vertical trust. A significant limitation of the study was its inability to suggest a causal relationship between trust and tax morale. In another tax compliance study, Mohd, Rizal, Maelah & Ramli (2017) sought to analyze impacts of trust and power on compliance, Malaysia. With 241 usable questionnaires, the study used structural equation modeling and confirmatory factor analysis to suggest trust as the only aspect that significantly affect tax compliance. These findings were also supported by Gobena (2017), who applied regression analysis on data from 284 respondents to determine the antecedents of tax compliance in Ethiopia.

In 2017, Mahadianto and Astuti examined trust in revenue authorities and compliance in Cirebon city in Indonesia. In the survey of 25 persons, correlation and regression results indicated a lack of a significance in the relationship amid trust in revenue authorities and compliance in Malaysia. However, study was limited by the use of a

smaller sample size and as such, the generalization of findings to other countries will be subjective. Wahl, Kastlunger, and Kirchler (2010) conducted two experiments in Varosia to examine the assumption in the slippery slope model and its impact on compliance. Analysis of multivariate covariance and variance was done. The study findings provided the earliest empirical investigation on the key hypotheses of the slippery slope model that both power and trust increases compliance to taxes (see appendix 4). The study concluded that trust increases the level of voluntary compliance.

#### **2.4.2 Taxpayers' Social Norms and Tax Compliance**

An effect of norms (social) on compliance in tax was studied in Peruvian environment by Raul and Aldo (2019). Regression results for data from 164 respondents aided the study's conclusion that a belief on the regular donation of other taxpayers that is, in terms of tax contribution, affect compliance decisions. The study contributed to literature on descriptive norms and tax compliance by emphasizing the need for non-standard motivations for compliance. the paper suggested that a taxpayer is willing to pay tax if he believes that enough others are also paying. In an investigation of the peer effect and income tax compliance by Sasmaz (2019), chi square tests and OLS linear regression were applied on data from 275 participants and results established that peer behavior is a strong predictor of compliance by taxpayers. The study contributed to literature by exploring deeply the effect of peer groups' tax compliance behavior. A similar study about norms and compliance supported Sasmaz's study and recommended that social campaigns should focus on social norm behavior. (Onu & Oats, 2015)

Alm et al., (2019) instituted experiments in examining the influence of norms' appeals on individuals' compliance decisions. The study used descriptive and injunctive norms

and results indicated normative appeals as generally having a modest and positive effect on tax compliance, if not always statistically significant. Ayodele et al., (2019) studied the effect of values and norms on compliance of self-employed taxpayers and found out norms positively influence tax compliance. The study applied regression analysis on data from 368 respondents and recommended the adoption of a continuous tax education with focus on enhancing norm induced compliance. Another study, Larkin et al., (2019) conducted an experiment in a UK local taxation unit in testing how effective descriptive norms are against control conditions as well as against communications highlighting enforcement processes. It was found that social norms outperform enforcement salience. The study moreover provided evidence of norm interventions to effectively influence compliance at the local government.

In Germany, Philipp and Andreas (2018) studied the internal motivation for compliance to tax in the background of a randomized survey experiment. The study integrated reciprocity which was established to have relatively high influence on compliance. Social-norm treatment for taxpayers was said to lowly affect compliance. A Ugandan study by Tsubira (2018) sought the understanding of tax compliance among medium and small-sized Corporations with social norms as one of the study variables. Findings revealed that descriptive norms can directly encourage corporate SMEs compliance to tax laws. Personal norms were said to directly influence voluntary corporate SMEs compliance intentions. The result also indicated that subjective norms may indirectly influence taxpayers' voluntary compliance. Another study of compliance to tax and social norms by Alm, Bloomquist & McKee, (2017) used experimental approaches to test the role of peer information in inducing compliance. The research found the provision of information on whether peers/neighbors are filing returns and/or declaring income to significantly affect on an

individuals' filing as well as reporting decisions. The results implied that individuals are influenced by what their "peers" decide to do. There was however a contraction that this "peer" information does not constantly improve tax compliance, subject to the exact content of the information.

Kostritsa and Sittler (2017) tested the assumption of social norms having a unforeseen effect on tax compliance by influencing individual norms. A study surveyed 333 Austrian taxpayers and the data was analysed with correlation and regression results supporting the assumption. Damayanti and others (2015) examined the part of perceptions in governments and the society to advance compliance in tax. With the of Fiscal Psychology theory and Subjective Norms, the study explained compliance in relation to taxpayers' compliance behavior. A sample size of 323 taxpayers from Central Java aided the findings that provided evidence on the two aspects having an influence on compliance behaviors in tax. The implication of the study was that compliance behavior is inclined on the taxpayers' intention to comply, which in turn is affected by their subjective norms as well as their perception about the government. The study was however limited in the sense that there was no data on individual taxpayers and so samples were selected using convenience sampling. This according to the present research is not an appropriate sampling technique because of associated biasness and sampling errors leading to low confidence in generalization of results.

In an experiment study, Hallsworth et al, (2014) concluded that social norm messages to taxpayers had significant positive influence to taxpayer compliance behaviors. Motivated by their thinking that that the paying taxes had then been the overlooked aspect of tax compliance, they tested this construct in dual natural field experiments using administrative data for over 200,000 taxpayers in the United Kingdom. The

study however did not show the extent to which social norms induce the moral concerns of taxpayers and their compliance behavior.

In a study that investigated factors influencing tax compliance in average U.S.A taxpayers, Jimenez (2013) analyzed compliance in a social setting. A survey was done with a sample of 217 taxpayers from a wide range of backgrounds. The study found social factors, trust of taxpayers in governments and the perception of how fair a tax system is to significantly affect tax compliance. These findings provided evidence that the social setting of taxpayers command a higher significance in their tax compliance decisions. However, the study relied on a one-time survey thus limiting the validity of conclusions to the time and place of the study. Additionally, respondents were well educated taxpayers, thus not a true representation of the general public for a behavioral study.

The empirical research in China, Ho and others (2013) advocated that close friends and members of a family influences individuals' taxpaying options because of their influence on individuals' judgments and ethic beliefs. The implication of the study was that higher levels of compliance by taxpayers' can be achieved if members of the individual's primary group comply with tax obligations. This conclusion as well were supported by Young et al, (2016) who argued that Chinese ethical values regarding taxpaying are formed by Confucian standards, especially familial virtues and norms of the group. This findings regarding social norm influence are however reflective of the Chinese environment where behavior is likely to be influenced by culture.

#### **2.4.3 Taxpayers' Perception about the Government and Tax Compliance**

Sritharan & Salawati (2019) studied factors affecting individual Taxpayer compliance in Malaysia, including perceptions about government spending. The study sample was 419 participants, with multiple regression analysis and Pearson's correlation revealing

significance in the relationship amid government's spending and compliance to tax. Tjen & Chris (2017) explored acute factors underlying the association between tax and the corruption perception. Specifically, their study considered the corruption effect in Indonesian tax administration levels, and identified actions that the revenue authorities could use to ensure a reduction of opportunities for corrupt activities. A qualitative research approach, using archival investigation complimented with interviews with significant involved parties. The study concluded with recommendations to the revenue authority of various programs and initiatives including ethical policies and practice, effective human resource management, internal controls and deterrence, statutory changes, creating autonomous revenue bodies and reducing compliance costs.

In a survey of 1073 Malaysian taxpayers, Palil & Mustapha (2011) examined various determinants of tax compliance and concluded that perceptions about government spending have an affect on compliance. In a study of taxpayer perceptions and tax evasion behavior, Yee, Moorthy & Soon (2017) analyzed 400 taxpayers' data and concluded that perception in fairness of tax and morality attitude in Malaysia were significant to compliance and evasion decisions. Sellywati and Mohd (2015) used questionnaires on 82 academician respondents in a research of Fairness and Individuals Compliance, Malaysia. A regression was run and the results revealed that respondents' perceptions about how fair a tax system is could influence their tax compliance behavior. The study however noted that procedural fairness alone has a positive significant association with compliance to tax. Alm, Martinez-Vazquez & McClellan (2014) developed a theoretical model which incorporated the corruption potential in a business's income declaration intentions. The study tested the results of the theory using the firms' reporting information got from an Enterprise Performance

Survey as well as World Enterprise Survey'. The study findings demonstrated corruption of tax officials as the greatest driver for the high level of tax evasion. It was noted in the study that the consequence of corruption deals by tax officials is a reduction in sales reported for taxes purposes. A recommendation was presented that governments intending to increase their tax revenue have to first ensure an honest tax administration.

Perceptions about government spending were studied in Europe by Pampel et al. (2019) and established as having a positive significant effect on compliance to tax. Using an experimental model, 2537 persons were involved in the study to aid the conclusion that governments should practice an effective spending for public resources in order to build positive perceptions from the taxpayers. Alm, Martinez-Vazquez & McClellan (2014) developed a theoretical model which incorporated probable corruption in a business's income declaration decision. The study tested the results of the theory using the firms' reporting information relating to an Enterprise Performance Survey as well as a World Enterprise Survey'. The study findings demonstrated corruption of tax officials as the greatest driver for the high level of tax evasion. It was noted in the study that the consequence of corruption deals by tax officials is a reduction in sales reported for taxes purposes. A recommendation was presented that governments intending to increase their tax revenue have to first ensure an honest tax administration.

The relationship between perceptions and compliance to tax was studied in several African countries. In an effort to establish the corruption' perceptions effects on compliance, Bertinelli, Bourgain & Léon (2020) focused on bribe and its effect on tax compliance in Mali. With a sample of 700 small retailers, corruption was found to provide a way for tax avoidance if not being considered as a substitute to compliance.



In Nigeria, Augustine and Enyi (2020) researched on trust in government, control of Corruption and Voluntary Tax Compliance with sample respondent of 1200 taxpayers. Using inferential statistics, the study found out and concluded that controls for corruption perceptions positively influenced individuals' unforced compliance decisions. A Ugandan study looked at the relationship between perceptions and tax compliance or non-compliance Korutaro et al., (2017). This study used structural equation modeling on data from 205 respondents in Uganda. The study found that the transparency of a tax system, distribution of public expenditure and governmental effectiveness are grounds for compliance or non-compliance. In another study in Ethiopia, Assfaw and Sebhat (2019) examined the relationship between tax compliance and various determinants. The study applied regression models on research data from 311 respondents with findings supporting Pampel et al (2019) that public spending perceptions indeed positively influenced tax compliance. A study in the same country examined the effect of perceptions of government spending and equity and fairness were examined by Getacher & Abera (2014). Results from a survey of 102 respondents for perceptions of government spending and equity and fairness among other factors didn't correlate significantly to compliance behaviours. An apparent conclusion in the research therefore was that these variables didn't affect compliance decisions in Ethiopia. These researches provided empirical evidence of the relationships in perceptions versus compliance to tax, an African perspective.

## **2.5 Critique of the Literature**

The theory, social contract outlined by John Locke, Hobbes Thomas, and Rousseau Jean (1632-1704) forms a basis to the imposition of taxes by the government. However as noted by Lasker (2013), the sovereign government possesses absolute authority which defies the rule of law by creating arbitrariness. It fails to address the

fact that not all people vote for the ruling government and therefore not all citizens are party to the contract. The theory of planned behavior and the cognitive dissonance theory are useful in explain norms and perceptions. However, a limiting factor for these theories (Ajzen, 1991; Fishbein, 2000), is that they fail to provide information concerning how individual' choices are undertaken and how a decision when made influences behaviors.

Literature establishes a positive link between trust and tax compliance (Wahl, Kastlunger, & Kirchler, 2010; Supriyadi, 2017; Hakim & Handajani, 2017). Conclusion that support revenue authorities' efforts in nurturing trust among taxpayers are therefore justified. However, most of the literature do not recommend the extent of trust required to enhance compliance. Extreme levels of trust may be abused by taxpayers and consequently can result to decreasing potential for sustaining the government budget through tax revenues.

The social norms of taxpayers have equally been linked with tax compliance attitudes and behavior by many studies. Sasmaz (2019) established that social norms are strong predictors of compliance to tax. Other studies (Onu & Oats, 2015; Damayanti et al., 2015; Ayodele et al., 2019) supported Sasmaz's study and recommended that social campaigns should focus on social norm behavior. The literature however does not give information on how the campaigns will change the norms to favor compliance in taxes. Similarly, the literature offers no explanation to the blurred measure of descriptive and injunctive norms which tend to be the same.

While the perceptions of taxpayers have been found to influence tax compliance (Sritharan & Salawati 2019; Tjen & Chris, 2017; Korutaro et al., 2017; Yee, Moorthy & Soon, 2017), other literature still reveal a lack of or present of little relationship

between perceptions and tax compliance (Netshaulu, 2016; Getacher & Abera, 2014). The literature also failed to appreciate the taxpayers' affiliation to political organizations that form the government. It possible that taxpayers who perceive negatively about the government are likely to vote in the same government, perhaps due to other extended affiliations.

## **2.6 Summary and Gaps in the Literature Reviewed**

In recent years, the field of research has exhibited a considerable intensity in tax studies using both economic restriction and behavioral approaches. There is therefore a wealth of knowledge on tax compliance and its impact on revenue generation. Many empirical studies have used the slippery slope framework and behavioral theories to explain the tax compliance behavior. The general trend is that variables of enforcement, trust, perceptions and social norms have a positive correlation to tax compliance. Deterrence studies offer no adequate explanation for voluntary tax compliance (Kirchler, 2008; Leibel, 2016; Alm, Kirchler, & Muehlbacher, 2012), and other studies established lack of significant correlation between tax compliance and its aspects like perceptions on government's spending, corruption, fairness and equity (Netshaulu, 2016; Getacher & Abera, 2014).

The review of literature also identified contextual gaps in earlier studies as they fail to address the missing information gap in the relationship between relevant variables in developing countries like Kenya. Past studies were majorly undertaken in developed nations such as U.S.A (Jimenez, 2013) Malaysia (Mohd & others, 2017; Sellywati & others, 2015), China (Ho & others, 2013; Young, 2013) and Australia (Gilligan & Richardson, 2005). The compliance environment in these nations is not alike with the African perspective, Kenya for instance. A contextual gap exists because the

circumstances surrounding taxpayers differ across geographical and cultural backgrounds.

Conceptually, variables of enforcement and generally the economic and deterrence approaches to tax compliance have been over researched (Kirchler, 2010). Trust, perceptions and norms have been analyzed in isolation in many researches for instance trust and tax compliance (Wahl et al, 2010; Hakim & Handajani, 2017; Gobena, 2017), social norms and tax compliance (young et al, 2016; Sasmaz, 2019; Ayodele et al., 2019) and perceptions (Jimenez, 2013; Tjen & Chris, 2017; Sritharan & Salawati, 2019). This study offered an opportunity to gain a further thought in the plurality of wide ranging variables and their influence on tax compliance. On methodology, Jimenez's (2013) measures for descriptive and injunctive norms are blurred. Measures for descriptive and subjective norms in this study have a clear distinction.

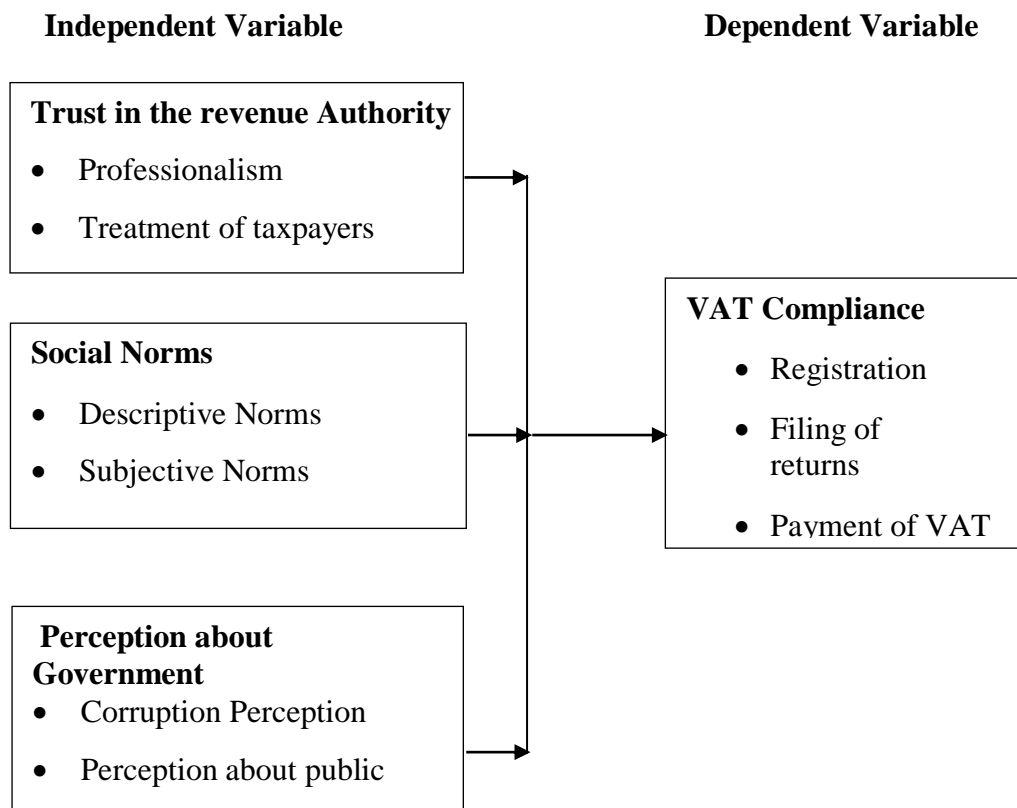
## **2.7 Conceptual Framework**

The conceptual model outlines the relationships between among the constructs of a study. 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 factors that affect VAT compliance of hotels. Taxpayer trust, social norms and perceptions were identified as independent variables that influence the dependent variable.

Kirchler et al, (2008) explained trust to mean an overall view of social groups and individuals and that revenue bodies are kind and engage taxpayers constructively for the equal benefit. I the study trust means the judgment of VAT taxpayers about the authority's benevolence and was measured by the authority's professionalism (Murphy, 2004), interaction with and treatment of taxpayers (Widuri et al, 2019).

Social norms imply the social pressure surrounding the taxpayers that it is mandatory to comply. Consequently, norms on tax compliance will be thought of as an extent to which those around taxpayers support compliance in taxes (Damayanti et al, 2015). In this study, social norms mean the behavioral influence of employees, owners, tax agents and business peers and descriptive norms. Measures were adopted with modification from Jimenez (2013) & Sasmaz (2019).

Perceptions refer to how taxpayers provide an appreciation or even oppose the existing tax system and the actions of the government towards political, economic and social issues (Jimenez, 2013). In this study, implies the taxpayers' appreciation of the government's position on public spending, corruption, public debt and the distribution of tax benefits, measures that were adopted with modification from Korutaro et al., (2017) and Jimenez, (2013). VAT compliance in this study refers to the taxpayers' willful actions that regard adherence to the Kenyan VAT law. This was measured through registration, tax returns filing and payment of Value Added Tax (Jimenez, 2013; Korutaro & others, 2017). Figure 2.1 gives an outline of the conceptual review.



**Figure 2.1: Conceptual Model**

Source: Author, 2020

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The chapter highlights framework and procedures used to achieve the purpose of the research. Categorically, it outlines the method applied in conducting research with effort in testing hypotheses. The research design, population of study, sample design, collection of data, pilot test, validity and reliability tests, analysis of data as well as operationalizing variables of the study variables.

#### **3.2 Research Design**

Akhtar (2016) and Silva (2017) contribute that a research design highlights and guides the conduct of the study through a clear plan for data collection, measurement and analysis to answer study questions. An explanatory research design was adopted which Cooper and Schindler (2003), argues that it establishes and quantifies a cause and effect in the relationship between the variables. This design enabled an understanding on how much trust, perceptions and social norms influence VAT compliance.

#### **3.3 The Target Population**

Population in research regards the whole group(s) of events, individuals or objects with common obvious features, and from them a sample is chosen for measurement (Mugenda, 2003). The target population for the study consisted 1076 hotels registered by the Tourism Fund in Nakuru County, Table 3.1. The selection was influenced by the research problem that VAT compliance has not been to expectation, noting that the hotel industry has been experiencing growth. Hotels formed the units of analyses for the present study while finance managers formed the units of observation.

**Table 3.1: Target Population**

|    | <b>Sub-County</b> | <b>Population</b> |
|----|-------------------|-------------------|
| 1  | Nakuru East       | 526               |
| 2  | Nakuru West       | 21                |
| 3  | Naivasha          | 322               |
| 4  | Gilgil            | 89                |
| 5  | Rongai            | 27                |
| 6  | Njoro             | 32                |
| 7  | Subukia           | 5                 |
| 8  | Bahati            | 5                 |
| 9  | Kuresoi North     | 10                |
| 10 | Kuresoi South     | 10                |
| 11 | Molo              | 29                |
|    |                   | 1076              |

Source: Author (2020)

### 3.4 The Sampling Size and Sample Techniques

#### 3.4.1 Size of the Sample

This was established through the application of a formula furnished by Cochran (1977).

$$n = N * X / (X + N - 1)$$

With;

$$X = Z_{\alpha/2}^2 * p * (1 - p) / d^2,$$

$Z_{\alpha/2}$  = critical value for a Normal distribution (the study used 95%,  $\alpha$  is .05;  $z = 1.96$ )

$p$  = proportion of the sample

$d^2$  = the error margin

$N$  = the population size



$$X = 1.96^2 * 0.5(1-0.5) / 0.05^2 = 385$$

$$n = 1076 * 385 / (385 + 1076 - 1) = 284$$

### 3.4.2 Sampling Techniques

Cooper (2003) describes a sample as a small group with similar characteristics as those of the population. Sampling techniques comprise the various methods of selecting a sample from the population. This study developed a sample through stratified random sampling. According to Lang et al (2016), Stratified Sampling entails the partitioning of all records into separate sets known as strata. Eleven Sub-counties in Nakuru formed the strata. Systematic random sampling was used within the strata since it maintains statistical regularity and ensures that the sample selected portrays similar composition and features as the population and thus representative (Kothari, 2004). Every  $n^{\text{th}}$  hotel was selected and the  $n^{\text{th}}$  value differed from one stratum to the other.

### 3.5 Data Collection

The study collected primary data in a survey by use of a self administered questionnaire that were based on objectives, hypothesis and literature review. The format of the instrument was adopted with modification from Lavermicocca, & Buchan (2015), whereby most questions are closed ended with only a few open questions for clarification. Sapiei et al (2014); Makara & Rametse, (2017) used such a questionnaire to study perceptions, compliance costs and compliance behavior. An introductory statement that specified the purpose of the research as purely academic was used to assure confidentiality and encourage respondents to be objective in their responses (See Appendix I). A drop and pick method was applied in order to accord respondents sufficient time to answer questions. Due to the widespread distribution of the sample, four research assistants were be trained to help in collecting data. The

training principally covered personal presentation skills, etiquette and ethical considerations.

### **3.6 Pilot Test**

The questionnaire was tested to determine its content and construct validity. A pilot study was conducted on 10 hotels in Narok County. Narok depicts a business environment exhibited by Nakuru, both being tourist hotspots in the country. Equally, the patterns of compliance behavior by hotels in these two Counties seemed similar.

### **3.7 Reliability of Research Instrument**

Reliability regards the extent with which a data tool yields similar results every time when put into measurement in constant settings (Saunders *et al.*, 2009). A reliable study is trustworthy if the appraises give similar results in different times, if same findings are got by different observers and if there is transparency in the findings of the raw data (Sekaran & Bougie, 2010). In the study, the data tool, (questionnaire) was tested in 10% of sample to ensure relevance and effectiveness and thus, 28 randomly selected hotels aided the testing of instrument reliability. In controlling response bias, those 28 were not included in the final study. The alpha coefficient (Cronbach's) is out of 1, with higher ratios indicating higher consistency, according to Sekaran & Bougie, 2010. A 0.7 alpha coefficient is recommended for a research instrument developed.

### **3.8 Validity of the Questionnaire**

Validity refers to extent a data tool measures whatever is expected to be measured, according to Kothari, (2004). It may equally regard the level to which a data tool inquires with the right question as with regard to accuracy. The Content validity of the study questionnaire was assessed by piloting, with subject responses checked

alongside study objectives. A pilot test with a randomly selected sample 28 hotels in Narok was carried out.

### 3.9 Data Analysis

Primary data from hotels was screened for relevance, completeness and appropriateness. Coding and analysing was achieved with SPSS software, v20.0. Descriptive information was generated in a univariate analysis of the bio data. Inferential techniques such as correlation analysis, and regression were applied in data analysis. In determining causal relationships among variables of the study, regression analysis was performed and it was guided by the following analytical model;

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon_i$$

**Where;**

$Y$  is a dependent variable, denotes VAT compliance,

$\beta_0$  is the y intercept, a constant,

$X_1$  represents taxpayer trust in the revenue authority,

$X_2$  denotes social norms of owners,

$X_3$  denotes perceptions about government,

$\beta_1$ ,  $\beta_2$  and  $\beta_3$  are variable coefficients while  $\epsilon_i$  is the error term.

### 3.10 Operationalization of Study Variables

This section highlights the research variables, indicators and data tools as well as the scale of measurement.

**Table 3.2: Operationalizing and Measurement of Variables**

| <b>Indicators for Variables</b>   | <b>Source</b>                                  | <b>Data Instrument</b> | <b>Scale</b>          | <b>Data Analysis</b> |
|---|--|------------------------|-----------------------|----------------------|
| <b>Independent Variables</b>  |  |                        |                       |                      |
| <b>Taxpayer Trust</b>   |  |                        |                       |                      |
| <ul style="list-style-type: none"> <li>• Professionalism of KRA staff</li> <li>• Interaction with taxpayers</li> </ul>                                    | Widuri et al (2019)                            | Questionnaire          | 5- Point Likert Scale | Multiple-Regression  |
| <b>Social Norms</b>   |  |                        |                       |                      |
| <ul style="list-style-type: none"> <li>• Descriptive Norms</li> <li>• Subjective Norms</li> </ul>   | Jimenez (2013) & Sasmaz (2019)                 | Questionnaire          | Likert-Scale          | Multiple-Regression  |
| <b>Perceptions</b>  |  |                        |                       |                      |
| <ul style="list-style-type: none"> <li>• Corruption prevalence</li> <li>• Distribution of tax benefits</li> <li>• Perception about public debt</li> </ul> | Korutaro, Mvura & Opiso (2017)                 | Questionnaire          | 5- Point Likert-Scale | Multiple-Regression  |
| <b>Dependent Variable</b>   |  |                        |                       |                      |
| <b>VAT Compliance</b>   |  |                        |                       |                      |
| <ul style="list-style-type: none"> <li>• Registration compliance</li> </ul>   | Jimenez (2013)                                 | Questionnaire          | Likert-Scale          | Multiple-Regression  |
| <ul style="list-style-type: none"> <li>• Filing compliance</li> <li>• Payment compliance</li> </ul>   | Jimenez (2013), Korutaro, Mvura & Opiso (2017) | Questionnaire          | 5-Point Likert Scale  | Multiple Regression  |

Source: Author (2020)

### 3.11 Ethical Considerations

Research like any other professional work requires the consideration of critical ethical elements. Accordingly, the study undertook to achieve a knowledgeable consent for the respondent participants before their involvement in research. This was achieved by explaining the study objective as purely academic. More precisely, the study guaranteed a high level of confidentiality with regard to information and data obtained from the participants. As such, the information was protected from third party access unless otherwise, and with the consent respondent(s).

## **CHAPTER FOUR**

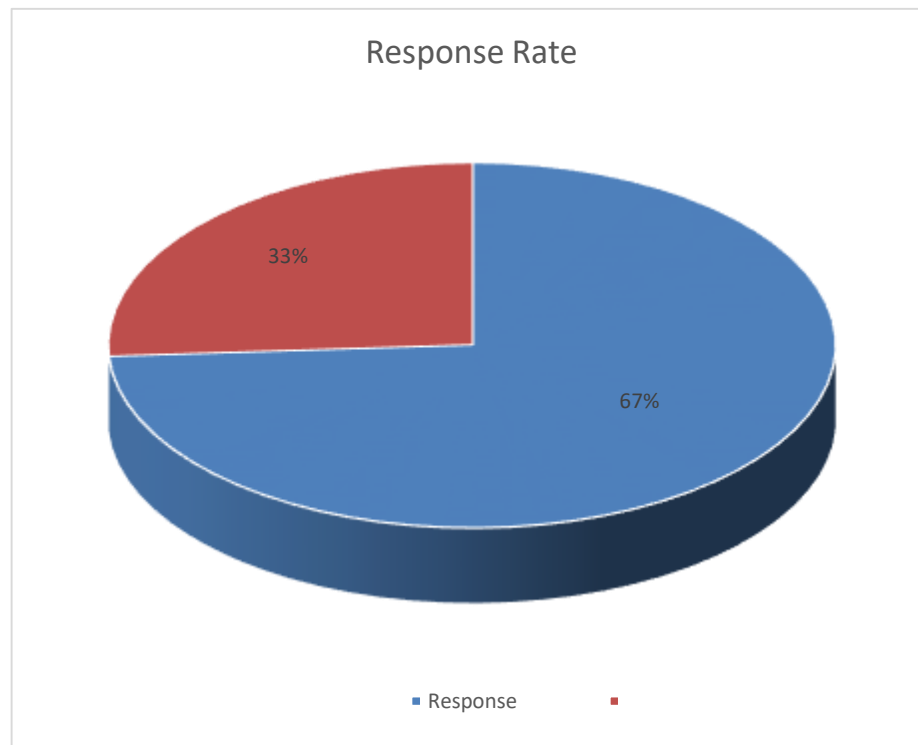
### **ANALYSIS OF DATA, PRESENTATION, INTERPRETATION AND DISCUSSION**

#### **4.1 Introduction**

In the chapter, analysis of data, and interpretation for results of hotels' data in Nakuru County grounded on factors that influence compliance in value added tax are presented. This study examined factors that influence compliance in value added tax among hotels. The response rate of the study is discussed, followed by the demographic characteristics of the respondents. Descriptive statistics using means and standard deviations were also presented for each objective. Inferential statistics focusing on correlation, using the Pearson's correlation matrix, and regression analysis were presented.

#### **4.2 The Response Rate**

Research undertook to collect data from 284 respondent hotels, regarding factors influencing VAT compliance among hotels in Nakuru County. 284 questionnaires were distributed by the out of which 199 were received, while 85 questionnaires were not collected by reason of either failure by the respondent to fill them or otherwise were misplaced by the respondents. 8 questionnaires out of those collected were rejected due to improper completion. The 191 questionnaires were filled correctly hence accepted which represent a response rate of 67 %. With the preconceptions usually harbored by taxpayers on tax compliance inquiries, this rate was commendable. 50% rate of response seems adequate, a rate of 60% is good while a rating of more than 70% is very good (Mugenda and Mugenda, 2003). A similar assertion was confirmed by (Kothari, 2004) and therefore, based on these views, an over 60% response rate for this research was good.



**Figure 4.1: Response Rate**

Survey Data, (2020)

### 4.3 Testing Reliability

Reliability regards the extent with which a data tool yields similar results every time when put into measurement in constant settings (Saunders *et al.*, 2009). The most common measure for reliability, the Cronbach's alpha coefficient estimates the internal level of consistency through examining relationships among items. Table 4.1 shows the results that indicated that taxpayer trust had a reliability of (0.810), Social norms (0.859), taxpayer perception (0.736), and lastly VAT compliance (0.896). The highest instrument had Cronbach Alpha value of 0.896 while the lowest had a reliability of 0.736 this implied that all instruments of the study were reliable for measurement. Sekaran & Bougie (2010) indicated that value which equals 0.7 or higher indicates high coefficient. According to Cooper and Schindler (2010) the alpha coefficient value of or above 0.5 indicates reliability. The research adopted a coefficient at 0.7 as the benchmark for reliability.

**Table 4.1: Reliability Testing**

| Factor         | No. of items | Cronbach's  |            |
|----------------|--------------|-------------|------------|
|                |              | Coefficient | Conclusion |
| Trust          | 7            | .810        | Reliable   |
| Social Norms   | 9            | .859        | Reliable   |
| Perceptions    | 6            | .736        | Reliable   |
| VAT Compliance | 5            | .896        | Reliable   |

Source: Author (2020)

#### **4.4 Demographic Characteristics**

The study found it of utmost significance establishing demographic information' for evaluating factors that affect compliance in VAT of hotels. Information of a demographic nature included; employment period, education level of the respondent, monthly turnover and registration for VAT obligation

##### **4.4.1 Period of Employment**

Majority of the respondents that is 55, representing 31.8 percent had worked at their hotel establishments for a period of between 1 and 2 year which closely was followed with managers that had been at their hotel employers' business for a period of between 2 and 5 years that is 43 (24.9 percent). 22.5 percent of the respondent managers had worked for the respective hotel employers for a period of more than five years while 20.8 percent had been at the hotel remises in less than one year. These results are highlited under table 4.2.

**Table 4.2: Period for employment at Hotel**

|                     | Frequency  | Percentage |
|---------------------|------------|------------|
| Below 1 year'       | 36         | 20.8       |
| Between 1 – 2 years | 55         | 31.8       |
| Between 2 – 5 years | 43         | 24.9       |
| Over 5 years        | 39         | 22.5       |
| <b>Total</b>        | <b>173</b> | <b>100</b> |

#### 4.4.2 Respondents' Level for Education

Education levels mostly affects the taxpayers' extent of awareness and how they understand tax obligations hence compliance. The research wanted the understanding of the education of hotel respondents' and the results appear on Table 4.3. Research results revealed most respondents' were in possession of bachelors degrees at 50.3%. Diploma holders at 26.1%.other managers or similar staffs had secondary school education, 6.3%. 14.1% have master's degree while at least.3.1% was PHD holders.

**Table 4.3: Education level**

|                         | Frequency  | Percent    |
|-------------------------|------------|------------|
| High School Certificate | 12         | 6.3        |
| Diploma                 | 50         | 26.1       |
| Bachelors' Degree       | 96         | 50.3       |
| Master Degree           | 27         | 14.1       |
| PHD                     | 6          | 3.1        |
| <b>Total</b>            | <b>191</b> | <b>100</b> |

Source: Author (2020)



#### 4.4.3 The Monthly Turnovers

The research established hotel respondent's average monthly sales, as this is a factor for VAT registration as based on the threshold set in the VAT Act (2013). Table 4.4 displays results of turnover. The subjects were inquired to show their monthly turnover. The findings presented in Table 4.4 displays majority, 35% of the respondents had of below 250,000. 32.9% of the respondents had a turnover between 420,00-749,999. Further, results showed that 20.9% of the respondents had a turnover of between 250,000-419,999. 8.9% had a turnover of between 750,000-1,000,000. While 2.1% of the respondents had the lowest turnover of above 1,000,000. This implies majority of the respondent had a turnover below 250,000.

**Table 4.4: Monthly turnover**

|                   | Frequency  | Percent    |
|-------------------|------------|------------|
| Below 250,000     | 67         | 35         |
| 250,000-419,999   | 40         | 20.9       |
| 420,000-749,999   | 63         | 32.9       |
| 750,000-1,000,000 | 17         | 8.9        |
| Above 1,000,000   | 4          | 2.1        |
| <b>Total</b>      | <b>191</b> | <b>100</b> |

Source: Author (2020)

#### 4.4.4 Value Added Tax Registration

The study inquired as to whether the respondent hotel's PIN had a VAT obligation. This was to establish the VAT registration status of the hotel and this could be checked against the threshold turnover requirement for tax obligation. As tabulated in table 4.5, 39.8% of the hotels studied have a VAT obligation on their PIN while 60.2% of those who respondent to this question had no VAT obligation on their PIN.

**Table 4.5: Value Added Tax Registration**

|                | Frequency  | Percent    |
|----------------|------------|------------|
| Registered     | 76         | 39.8       |
| Not registered | 115        | 60.2       |
| <b>Total</b>   | <b>191</b> | <b>100</b> |

Source: Author (2020)

#### **4.4.5 Value Added Tax Enforcement Measures**

The study in an open ended question required the respondents to comment on the VAT enforcement measures used by the revenue authority with regard over audit, fines and penalties. Concerns about excessive use of fines and penalties by the revenue authority arose with most of the comments expressing dissatisfaction in the way the authority handles taxpayers. Most responses suggested that taxpayers in the hotel sector try to comply to tax with maximum effort as a strategy of avoiding audit by the authority. However, a few positive comments were equally captured from the responses with taxpayers supporting the use of strict enforcement measures on non compliant hotels.

#### **4.5 Statistical Assumptions**

Assumptions testing were carried carefully to check and avoid incorrect assumptions that could generate inaccurate conclusions and in particularly statistical assumptions. Test of assumptions was helpful in ensuring the validity of analysis and aids in avoiding hypotheses errors, type 1 and 2, (Ghasemi & Zahediasl, 2012). Before analysis, multicollinearity and normality for data were tested.

#### 4.5.1 The Test of Normality

In parametric analysis, an assumption is made to the effect that the data under test has a normal distribution and hence the use of measures of location or central tendency. Most statistical procedures for instance t test and regression are found on normality assumption (Ghasemi & Zahediasl, 2012). The various techniques of testing normality include the Kolmogorov-Smirnov, Shapiro-Wilk, Lilliefors and Anderson Darling. This study used the Shapiro-Wilk test, a powerful test for distribution in normality according to Razali & Wah, (2011). As a rule of thumb, the significant values for the Shapiro-Wilk test should be above 0.05 for the assumption to be met. Table 4.6 highlights results of the test.

**Table 4.6: Test of Normality**

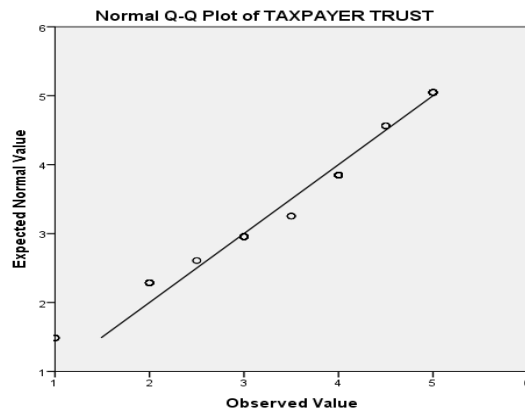
|                           | Kolmogorov Smirnov |     |     | Shapiro Wilk |     |      |
|---------------------------|--------------------|-----|-----|--------------|-----|------|
|                           | Statistic          | d f | Sig | Statistic    | d f | Sig  |
| Taxpayer Trust            | 0.273              | 191 | 0   | 0.880        | 191 | 0.42 |
| Social Norms of Taxpayers | 0.264              | 191 | 0   | 0.883        | 191 | 0.51 |
| Taxpayer Perceptions      | 0.230              | 191 | 0   | 0.914        | 191 | 0.28 |
| Vat Compliance            | 0.251              | 191 | 0   | 0.893        | 191 | 0.37 |

Source: Author (2020)

Results for test of normality, table 4.5 are indicative that the assumption of normality was not violated since the Shapiro-Wilk test values are well above 0.05.

The Shapiro-Wilk test value for taxpayer trust was above 0.05, a clear indication of a met normality assumption. The graphical demonstration for the values observed against the values expected for variables as plotted, in the Q- Q plot for taxpayer trust,

Figure 4.2. Observed values were coalesced on the linear line (best fit), implying a normal distribution of data for taxpayer trust.



**Figure 4.1: Q-Q Plot for Taxpayer Trust**

Source: Author (2020)

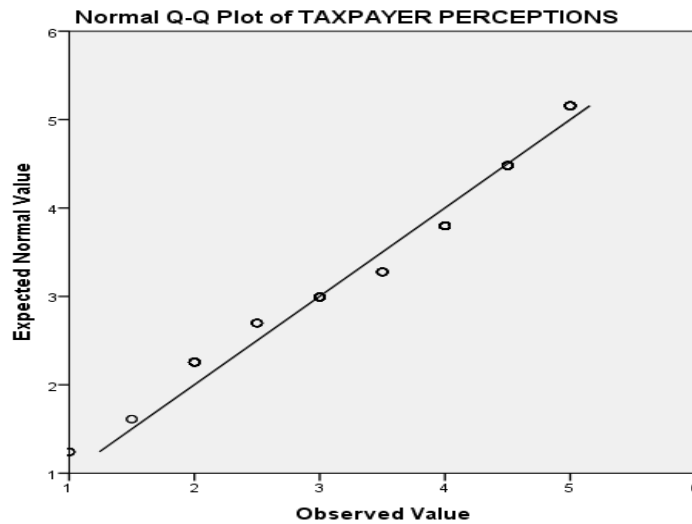
Regarding social norms, the Shapiro-Wilk value was above 0.05 and thus signifying normal distribution. The graphical illustration for the values observed against values expected for social norms variable similarly revealed a high possibility for normal distribution of the data. This is depicted in figure 4.3, Q -Q plot of social norms where most data values observed lie closer to the line of good fit, implying a normal distribution of data for norms of taxpayer



**Figure 4.2: Q-Q Plot for Social Norms**

Source: Author (2020)

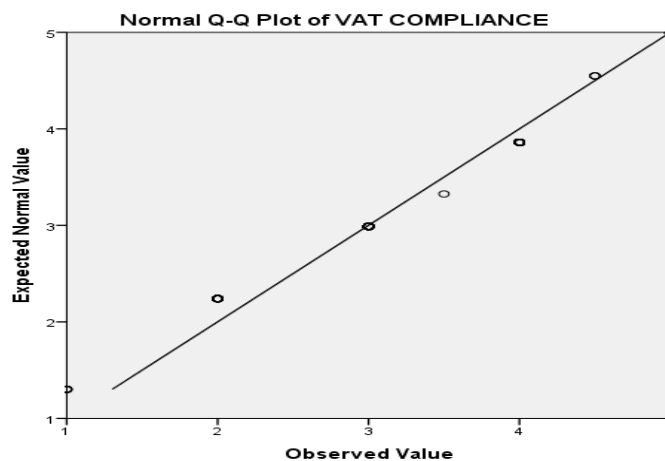
The Q-Q plot of observed values against the expected values of perceptions also revealed consistency with the normality assumption, with values lying closer to the line of good fit. The observed values coalesced along best fit line, implying the distribution of data for taxpayer perception was normal, figure 4.4



**Figure 4.3: Q- Q Plot for Taxpayer’s Perceptions**

Source: Author (2020)

The observed and expected values of the study variable VAT compliance were also represented in a Q-Q with most data values lying closer to the line of best fit, implying a normal distribution of data for Vat compliance, figure 4.5



**Figure 4.4: Q –Q Plot for Value Added Tax Compliance**

Source: Author (2020)

#### 4.5.2 Multicollinearity Test

Another significant assumption in parametric analysis is to the effect that there lacks multicollinearity. According to Gujarati & Porter (2008), multicollinearity denotes a high correlation between the independent variables. Gujarati avers that multicollinearity causes an insignificant problem in econometric estimation in the sense that it violates no assumptions. Nevertheless, it can lead to very large standard errors of the coefficient (Osborne and Walters, 2014) and thus there is need to examine whether some independent variables may be insignificant by reason of high multicollinearity. The research applied variance inflation factor, VIF and tolerance scores (reciprocals of VIF) to test for multicollinearity. As a rule of thumb, for the variables to be free from multicollinearity, the VIF values for variables ought to be way below 10 ( $VIF < 10$ ) or tolerance scores be well above 0.2 ( $1/VIF > 0.2$ ). Conferring to the results in Table 4.7, an analysis of the collinearity statistics reveal that the assumption was met, as VIF values were all well below 10 (statistics = 1.221; 1.557 ; 1.476) and tolerance scores above 0.2 (statistics = 0.819; 0.642; 0.678).

**Table 4.7: The Collinearity Statistics**

| <b>Collinearity Statistics</b> |                         |                     |
|--------------------------------|-------------------------|---------------------|
|                                | <b>Tolerance levels</b> | <b>V I F values</b> |
| Taxpayer Trust                 | .819                    | 1.221               |
| Social Norms of Taxpayers      | .642                    | 1.557               |
| Taxpayer Perceptions           | .678                    | 1.476               |

Source: Author (2020)

## 4.6 Descriptive Statistics

### 4.6.1 Taxpayer Trust and VAT Compliance

The study in its first objective sought to analyze taxpayer' trust effect on compliance in hotel VAT Nakuru County. The concept of trust focused on a believe in the revenue authority's benevolence and goodwill in dealing with taxpayers. Using a set of five point Likert scale questions, trust was assessed on the basis of the magnitude with which it shakes VAT compliance. A majority of respondents moderately affirmed to taxpayer trust affecting the VAT compliance with a mean score of 3.89. A majority particularly highly agreed that KRA acts fairly towards hotel taxpayers with a mean score of 4.24. KRA hires professional and dedicated employees with a mean score of 4.23. Revenue officers embrace dedication and professionalism with a mean score of 4.17. KRA's staff interact fairly with taxpayers had a mean score of 4.05. KRA is treating hotel taxpayers correctly with a mean score of 3.83. KRA treats hotel taxpayers in a respectful manner with a mean score of 3.55 and lastly on KRA is honest and open in engaging taxpayers, had mean of 3.20, Table 4.8 has these results.

**Table 4.8: Taxpayer Trust**

| <b>Statement</b>                                       | <b>Mean</b> | <b>Std. Dev</b> |
|--|-------------|-----------------|
| KRA hires professional and dedicated employees         | 4.23        | .557            |
| Revenue officers embrace dedication and professionalis | 4.17        | .725            |
| KRA is honest and open in engaging taxpayers           | 3.20        | .359            |
| KRA's staff interact fairly with taxpayers             | 4.05        | .678            |
| KRA treats hotel taxpayers in a respectful manner.     | 3.55        | .551            |
| KRA acts fairly towards hotel taxpayers.               | 4.24        | .817            |
| KRA is treating hotel taxpayers correctly              | 3.83        | .682            |
| <b>Mean</b>  | <b>3.89</b> |                 |

Source: Researcher (2020)

#### 4.6.2 Social Norms and Value Added Tax Compliance

The study also explored social norms of hotels and the extent to which they affected value added tax compliance of these enterprises. This was achieved with the use of statements measured using a 5 point scale, Likert. Conferring from table 4.9, majority of respondents agreed to social norms affecting the VAT compliance with a mean score of 3.98. Most hotels pay their VAT dues on time with a mean score of 4.82. Tax agents support VAT compliance with a mean score of 4.56. Hotel taxpayers correctly Report expenses with a mean score of 3.93. Many individuals can do any action in avoiding taxes had a mean score of 3.90. Business peers support VAT compliance with a mean score of 3.83. Hotel owners support VAT compliance with a mean score of 3.70. Our employees support VAT compliance, mean of 3.69. Respondent as well approved hotel taxpayers correctly reporting sales in tax returns with a mean score of 3.33. Lastly, Hotel taxpayers don't cheat on taxes with 3.17, for the mean.

**Table 4.9: Social Norms**

| <b>Statement</b>                                      | <b>Mean</b> | <b>Std. Dev</b> |
|---|-------------|-----------------|
| Hotel taxpayers don't cheat on taxes                  | 3.17        | .612            |
| Hotel taxpayers correctly Report expenses             | 3.93        | .052            |
| Hotel taxpayers correctly report sales in tax returns | 3.33        | .605            |
| Most hotels pay their VAT dues on time                | 4.82        | .592            |
| Many individuals can do any action in avoiding taxes  | 3.90        | .585            |
| Our employees support VAT compliance                  | 3.69        | .560            |
| Business peers support VAT compliance                 | 3.83        | .609            |
| Hotel owners support VAT compliance                   | 3.70        | .655            |
| Tax agents support VAT compliance                     | 4.56        | .798            |
| <b>Mean</b>   |             | <b>3.98</b>     |

Source: Researcher (2020)



### 4.6.3 Perceptions and Value Added Tax Compliance

The study further sought to explore the different perception of the taxpayer about the government and how they contributed to value added tax compliance. Operationalization was achieved using statements that measured with a 5-point scale. Table 4.10 highlights the descriptive statistics for taxpayer perception. Most respondents agreed taxpayer perception affected the VAT compliance with a mean score of 4.06.

The tax system is fair and it enhances VAT with a mean score of 4.88. Debt unsustainable reduces VAT compliance with a mean score of 4.79. Government spending priorities had a mean score of 3.91. Public debt reduces VAT compliance had a mean score of 3.87. Corruption reduces VAT compliance with a mean score of 3.86. Lastly, Distribution of tax benefits to industries taxes with a mean score of 3.05.

**Table 4.10: Taxpayer Perception**

| <b>Statement</b>                                      | <b>Mean</b> | <b>Std. Dev</b> |
|---|-------------|-----------------|
| The tax system is fair and it enhances VAT compliance | 4.88        | .680            |
| Corruption reduces VAT compliance                     | 3.86        | .693            |
| Distribution of tax benefits to industries            | 3.05        | .748            |
| Government spending priorities                        | 3.91        | .718            |
| Public debt reduces VAT compliance                    | 3.87        | .713            |
| Debt unsustainable reduces VAT compliance             | 4.79        | .777            |
| <b>Mean</b>   | <b>4.06</b> |                 |

### 4.6.4 Value Added Tax Compliance

The main problem that prompted the investigation by this study was the VAT compliance and the influence of variables of trust, social norms and perceptions on it. This study therefore analysed the value added tax compliance of hotels premised on

finance managers' opinions. Statistics (descriptive) on VAT compliance as highlighted in table 4.11, show majority of respondents agreeing to VAT compliance, score mean of 4.12. Most respondents' agreed regarding a statement, I will not have registered for VAT even if I qualified to with a mean score 4.65. I have a duty to pay the VAT due after filing returns, 4.31 being the score mean. Respondents similarly agreed on I will wrongfully increase deductible expenses with a mean score of 4.10. Maintenance of proper records of VAT documents is important with a mean score of 3.91. Lastly, It is my responsibility to file VAT returns in time had a mean score of 3.84.

**Table 4.11: VAT Compliance**

| <b>Statement</b>  | <b>Mean</b> | <b>Std. Dev</b> |
|---|-------------|-----------------|
| I will not have registered for VAT even if I qualified to.  | 4.65        | .632            |
| I will wrongfully increase deductible expenses              | 4.10        | .577            |
| Maintenance of proper records of VAT documents is important | 3.91        | .499            |
| It is my responsibility to file VAT returns in time         | 3.84        | .614            |
| I have a duty to pay the VAT due after filing returns       | 4.31        | .923            |
| <b>Mean</b>   | <b>4.12</b> |                 |

Source: Author (2020)

#### **4.7 Inferential Statistics**

Inferential statistics refer to a technique that aids the use of study samples in generalizing results to a larger population that houses the sample (Cooper, 2003 ). Correlation coefficients are used here in describing strengths in association amid and among the determined and determining variables, while multiple regression determines predictive powers of independent variables on Value Added Tax compliance.

#### 4.7.1 Correlation Coefficients

Correlation analysis for various variables is presented in this section. The Pearson Karl's correlation, which parametrically measures association, direction and strength between two variable aspects, was used. Table 4.12 presents the Correlation Coefficients. The analysis in correlation was done at a and 1% precision and 99% confidence level. The Pearson's correlation results, Table 4.12 share taxpayer trust in revenue authorities depict moderate and positively significant relationships with compliance in VAT of a hotel taxpayer, with  $r = 0.368$ ,  $P < 0.01$ . Social norms of taxpayers exhibit a strong correlation (positive) with VAT compliance (the revenue coefficient = 0.699,  $p < 0.01$ ), hence statistically significant. On perceptions about the government, results portray a medium positive association with VAT compliance ( $r = 0.471$ ,  $p < 0.01$ ). Independent variables exhibit low correlation except for social norms and perceptions that have strong correlation (0.561). All results gotten in the analysis of correlation were statistically significant.

**Table 4.12: Correlations Statistics of Independent and Dependent Variables**

|                     |                     | VATCompliance | Trust | Social Norms | Taxpayer perception |
|---------------------|---------------------|---------------|-------|--------------|---------------------|
| VAT compliance      | Pearson Correlation | 1             |       |              |                     |
| Trust               | Pearson Correlation | .368          | 1     |              |                     |
| Social norms        | Pearson Correlation | .699          | .374  | 1            |                     |
| Taxpayer perception | Pearson Correlation | .471*         | .561* | .403*        | 1                   |

Correlation significant, 0.01 ( 2 tailed).

Source: Author (2020)

#### 4.7.2 Regression Results Analysis

Multiple regressions were conducted to establish the effect of taxpayer trust, social norms and perceptions on the value added tax compliance levels among hotels. The model for goodness of fit, results of ANOVA and the estimation model are presented.

##### 4.7.2.1 Effect of Taxpayer Trust on Value Added Tax Compliance

Regressions were done to determine how taxpayer trust impacts VAT compliance and results were presented in table 4.13. They indicate that taxpayer trust had a positive correlation with value added tax compliance up to 36.8% ( $R = 0.368$ ). These results indicate that the independent variable trust, caused a variation of 13.5% ( $R^2=0.135$  and adjusted  $R^2= 0.131$ ) in the VAT compliance. This implies that 86.5% of the increase in VAT compliance was not due to the trust of taxpayers, but other factors. (F value= 29.606,  $p= 0.000 < 0.05$ )

**Table 4.13: Testing the Goodness of Fit, Taxpayer Trust**

| Model | R                 | R <sup>2</sup> | R <sup>2</sup> Adjusted | Std Error |
|-------|-------------------|----------------|-------------------------|-----------|
| 1     | .368 <sup>a</sup> | .135           | .131                    | .96067    |

| ANOVA |             |                             |      |                |        |                   |
|-------|-------------|-----------------------------|------|----------------|--------|-------------------|
| Model |             | Sum of Squares <sup>c</sup> | d. f | Square of Mean | F      | Sig               |
| 1     | Regressions | 27.323                      | 1    | 27.323         | 29.606 | .000 <sup>b</sup> |
|       | Residual    | 174.426                     | 189  | .923           |        |                   |
|       | Total       | 201.749                     | 190  |                |        |                   |

| Coefficients <sup>c</sup> |                |  |           |  |       |      |
|---------------------------|----------------|--|-----------|--|-------|------|
| Model                     |                | Unstandardised Coefficients <sup>c</sup> |           | Standardised Coefficients <sup>c</sup> | t.    | Sig  |
|                           |                | B  | Std Error | Beta                                   |       |      |
| 1                         | ( Constants )  | 2.166                                    | .255      |  | 8.482 | .000 |
|                           | Taxpayer Trust | .370                                     | .068      | .368                                   | 5.441 | .000 |
|                           |                |  |           |  |       |      |

Source: Author (2020)

#### 4.7.2.2 The Social Norm Effect on Value Added Tax Compliance

Regressions were carried out in determining how taxpayers' social norms impact VAT compliance and results were presented in table 4.14. It is shown that the social norms of taxpayers had a positive correlation with value added tax compliance up to 69.9% ( $R = 0.699$ ). The results indicate that the independent variable social norms, caused a change of 48.9% ( $R^2=0.489$  and adjusted  $R^2= 0.486$ ) in the VAT compliance, implying that 51.1% of the variation in VAT compliance was not due taxpayer norms, but factors the model didn't include. ( $F = 180.68$ ,  $p= 0.000 < 0.05$ )

**Table 4.14: Testing the Goodness of Fit, Social Norms**

| Model | R                 | R <sup>2</sup> | R <sup>2</sup> Adjusted | Std Error |
|-------|-------------------|----------------|-------------------------|-----------|
| 1     | .699 <sup>a</sup> | .489           | .486                    | .73874    |

| ANOVA |             |                             |      |                |        |                   |
|-------|-------------|-----------------------------|------|----------------|--------|-------------------|
| Model |             | Sum of Squares <sup>a</sup> | d. f | Square of Mean | F      | Sig               |
| 1     | Regressions | 98.605                      | 1    | 98.605         | 180.68 | .000 <sup>b</sup> |
|       | Residual    | 103.144                     | 189  | .546           |        |                   |
|       | Total       | 201.749                     | 190  |                |        |                   |

| Coefficients |              |  |           |  |        |      |
|--------------|--------------|--|-----------|--|--------|------|
| Model        |              | Unstandardised Coefficients <sup>a</sup> |           | Standardised Coefficients <sup>a</sup> | t.     | Sig  |
|              |              | B  | Std Error | Beta                                   |        |      |
| 1            | ( Constant ) | .929                                     | .199      |  | 4.673  | .000 |
|              | Social Norms | .716                                     | .053      | .699                                   | 13.442 | .000 |

Source: Author (2020)

#### 4.7.2.3 Effect of Perceptions on Value Added Tax Compliance

Regressions were carried out towards determining how taxpayers' perceptions affect compliance in VAT and results were resented in table 4.15. The data for taxpayer perception and VAT compliance was regressed and the results are presented in table 4.15. Like trust and social norms, perceptions were also found to correlate positively

with value added tax compliance up to 47.1% ( $R = 0.471$ ). These results indicate that the independent variable perceptions, caused a variation of 22.2% ( $R^2=0.222$  and adjusted  $R^2= 0.218$ ) in compliance to VAT. The implication was that 77.8% of the variation in compliance to VAT can be described by the perceptions of taxpayers, but factors other than what was considered by the model. ( $F = 53.833$ ,  $p= 0.000 < 0.05$ )

**Table 4.15: Testing the Goodness of Fit, for Perceptions**

| Model | R                 | R <sup>2</sup> | R <sup>2</sup> Adjusted | Std Error |
|-------|-------------------|----------------|-------------------------|-----------|
| 1     | .471 <sup>a</sup> | .222           | .218                    | .91149    |

| ANOVA |             |                 |     |                |        |                   |
|-------|-------------|-----------------|-----|----------------|--------|-------------------|
| Model |             | Sum of Squares, | d.f | Square of Mean | F.     | Sig               |
| 1     | Regressions | 44.725          | 1   | 44.725         | 53.833 | .000 <sup>b</sup> |
|       | Residuals   | 157.024         | 189 | .831           |        |                   |
|       | Totals      | 201.749         | 190 |                |        |                   |

| Coefficients |              |  |                        |  |       |      |
|--------------|--------------|--|------------------------|--|-------|------|
| Model        |              | Unstandardised Coefficients <sup>c</sup> |                        | Standardised Coefficients <sup>c</sup> | t.    | Sig  |
|              |              | B  | Std Error <sup>c</sup> | Beta                                   |       |      |
| 1            | ( Constant ) | 1.859                                    | .234                   |  | 7.959 | .000 |
|              | Perceptions  | .462                                     | .063                   | .471                                   | 7.337 | .000 |

Source: Author (2020)

#### 4.7.2.4 The Overall Effect of the Study Variables on Value Added Tax Compliance

Regressions were done in determining the combined impact of trust, social norms as well as perceptions towards VAT compliance among hotels. The model's goodness of fit, analysis of variance and the regression coefficients, Tables 4.16

**Table 4.16: Model's Goodness Fit, ANOVA and the Coefficient of Regression**

| Model |                         | Unstandardised Coefficients' |            | Standardised Coefficients' |        |      |
|-------|-------------------------|------------------------------|------------|----------------------------|--------|------|
|       |                         | B                            | Std Error' | Beta                       | t.     | Sig  |
| 1     | ( Constant )            | .607                         | .040       |                            | 15.175 | .002 |
|       | Taxpayer                | .286                         | .058       | .086                       | 4.931  | .007 |
|       | Trust                   | .625                         | .066       | .611                       | 9.469  | .000 |
|       | Social Norms            | .395                         | .062       | .096                       | 6.370  | .001 |
|       | Perceptions             |                              |            |                            |        |      |
|       | R                       | .710                         |            |                            |        |      |
|       | R <sup>2</sup>          | .504                         |            |                            |        |      |
|       | R <sup>2</sup> Adjusted | .4968                        |            |                            |        |      |
|       | Std Error               | .732                         |            |                            |        |      |
|       | F Value                 | 63.262                       |            |                            |        |      |
|       | Sig                     | <b>0.000<sup>b</sup></b>     |            |                            |        |      |

**a. Dependent Variable: VAT Compliance**

**b. Independent Variables: (Trust, Social Norms of Taxpayer & Perceptions)**

Source: Author (2020)

In Table 4.16 results for regressions analysis on model's goodness fit that is R, R<sup>2</sup> and the estimates standard error. R represents the model's multiple correlation coefficient, while R square, the determination coefficient represents a variance proportion in the explained variable which can be determined by the independent variables. Standard error of the estimate represents the effect of random errors, measurement and specification errors.

Conferring from table 4.16, the combination of the independent variables that is taxpayer trust in the revenue authority, social norms and perceptions of taxpayers correlate with VAT compliance up to 0.710, a reasonably strong positive association between variables. Determination coefficient (R<sup>2</sup>) of .504, meant when other factors are held constant, taxpayer trust, social norms and perceptions of taxpayers explain

50.4% of a change in the value added tax compliance. Therefore, 49.6% of the change in VAT compliance was due to other factors not considered by the model. With adjustments for degrees of freedom, and as used in regression analysis, R square indicated a value of 0.496 implying a variance of 49.6% in VAT compliance due to changes in trust social norms and perceptions of taxpayers. Therefore, 50.4% of variations in VAT compliance can be caused due to factors the model didn't include.

#### **4.7.3 Analysis of Variance**

Results for ANOVA, table 4.16 potend significance in the relationships the variables (Trust in the Revenue Authority, Social Norms of Taxpayers, and Taxpayers' Perception about the Government) and VAT compliance, dependent variable. The F value is determined which represent variances between groups, divided with variances within groups. Larger ratios indicate greater variability between groups (triggered by independent variables) than the variance in each group, known as error term. ANOVA results, table 4.16 show the combined effect of taxpayer trust, social norms and perceptions to reflect a statistically significant relationship with VAT compliance at 5% Level of significance ( $F = 63.262$ ,  $p < 0.05$ ). Regression model is therefore significant in predicting value added tax compliance.

#### **4.7.4 The Regression Equation**

Table 4.16 indicates the standardized and unstandardized coefficients of variables. The significance values analyze whether the individual variables are significant in predicting VAT compliance at 5 percent confidence level. The constant had a coefficient (0.607), significance value ( $.002 < .05$ ), implying that t'was significant. Taxpayer trust in the revenue authority posed a standardized coefficient 0.286, significance value ( $0.007 < 0.05$ ). This implies that trust adequately predicted value added tax compliance at 5 % significance level. The standardized coefficient of social



norms was 0.625. This variable adequately predicts value added tax compliance of hotels since the significance value is (0.000) <0.05. The third independent variable, taxpayers' perceptions had a standardized coefficient of 0.395 and it similarly was adequate in predicting VAT compliance patterns among hotels because it has a significance value of (0.001) <0.05. The model equation is therefore presented as:

$$Y_i = 0.607 + 0.286X_1 + 0.625X_2 + 0.395X_3 + 0.732$$

A Constant of 0.607, shows that if the Trust, Social Norms of Taxpayers, Taxpayer Perception about the Government, all are held at constant, 0.607 compliance in VAT will be achieved. The regression coefficients for trust, social norms and perceptions are 0.286, 0.625 and 0.395 respectively. Therefore, when the level of taxpayer trust in the KRA increases by a unit, leads to a 0.286 increase in the VAT compliance levels. Similarly, an increase in the perceptions of the taxpayers by a unit results in 0.395 increases to VAT compliance levels. A unit positive change in social norms of taxpayers increases VAT compliance levels with 0.625. The estimate's error, 0.732 represents the effect of taxpayers' random and unpredictable behavior, measurement and specification errors on VAT compliance.

#### **4.8 Hypothesis Testing**

A hypothesis can be tested using regression analysis by ascertaining the independent variables that contribute substantively to the capability of the model in explaining variability of dependent variables. The independent variables; taxpayer trust, social norms and perceptions were singled out and formed the basis for hypothesis testing. The test was done to validate or invalidate the hypotheses.

**Hypothesis Ho<sub>1</sub>**

The research wanted to investigate taxpayer trust and its effect to tax compliance among hotels, in the County of Nakuru. This informed the first null hypothesis of the study ( $H_{01}$ ) which stated that taxpayer's trust has no significant influence on VAT compliance of hotels in Nakuru County. The regressions coefficients' found revealed thus, at a level of confidence of 0.05, and maintaining other influences at constant, taxpayer trust did significantly affect compliance in VAT. The result revealed that p values was less than 0.05,  $p=0.007$ . The study thus fails to accept the first hypothesis, concluding that taxpayers' trust significantly affects compliance in VAT of hotels in the County.

**Hypothesis Ho<sub>2</sub>**

The research investigated the social norms' effect to tax compliance in Nakuru hotels. This informed a second null hypothesis of the study ( $H_{02}$ ), stating as social norms lacked significant influence to hotels' VAT compliance in Nakuru County. The regressions coefficients' found revealed thus, at a level of confidence of 0.05, and maintaining other influences at constant, taxpayer norms did significantly affect compliance in VAT. The result revealed a p value of below 0.05,  $p=0.000$ . The research thus didn't accept second hypothesis concluding that social taxpaying norms significantly affect on compliance of hotels in the County. A summary of results is shown in table 4.16

**Hypothesis Ho<sub>3</sub>**

The study also determined taxpayer perceptions effect on compliance of hotels across the County. This informed a third null hypothesis in the study ( $H_{03}$ ) which was stated to the effect that taxpayer perception have no significant influence on VAT

compliance of hotels in Nakuru County. The regressions coefficients' found revealed thus, at a level of confidence of 0.05, and maintaining other influences at constant, taxpayer perceptions significantly affected hotel VAT compliance. The result revealed p values was less than 0.05,  $p=0.001$ . The study thus fails to accept the third null hypothesis and concludes that taxpayer perceptions significantly affect compliance in VAT of hotels in the County.

**Table 4.17: Hypotheses Test Results Summary**

| <b>Hypothesis</b>     | <b>Statement</b>   | <b>Sig level</b> | <b>Decision</b> |
|-----------------------|--|------------------|-----------------|
| <b>H<sub>01</sub></b> | Taxpayer's trust has no significant influence on VAT compliance of hotels      | 0.007            | Rejected        |
| <b>H<sub>02</sub></b> | Social norms have no significant influence on VAT compliance of hotels         | 0.000            | Rejected        |
| <b>H<sub>03</sub></b> | Taxpayers' perception has no significant influence on VAT compliance of hotels | 0.001            | Rejected        |

Source: Author (2020)

## **4.9 Discussing the Findings**

The research aimed in determining influence trust in the revenue authority, social norms and perceptions have on value added tax compliance among hotels in Nakuru County. Primary data relating to trust, social norms and perceptions was regressed against VAT compliance data, from the taxpayers' perspective. The study established a moderately robust and substantial association between predicting variables and hotel VAT Compliance.

### **4.9.1 Effect of Taxpayer Trust of Value Added Tax Compliance**

Determining the influence trust in the revenue authority on VAT compliance was the first objective this study. The findings revealed that a unit change in trust of the taxpayers caused a variation of 13.5% in VAT compliance among the hotels in

Nakuru County. These results portrayed statistical significance, a 29.6 F ratio and a  $p = 0.000$  which was  $< 0.05$ , the conventional probability significance level. These findings on trust and tax compliance are a bare minimum effect among the three predictor variables that were the focus of the study. Nevertheless, the results support the position of earlier researches on tax compliance. The research results' depicted consistency with findings in Asian researches by Widuri & others (2019) and Saad & others (2019), Indonesian researches by Khasanah et al., (2019), and Andyarini, (2019). Those research found closer relationships of trust and compliance in taxes. On the contrary, an earlier study in Indonesia (Mahadianto and Astuti, 2017) indicated absence of significance in relationships amid trust & compliance. This study reflected the tax compliance environment in Kenya and therefore establishes empirical findings on trust and VAT compliance for review by future researchers in Africa.

#### **4.9.2 Social Tax Norm Effect on Compliance in Value Added Tax**

Study in its second objective sort to establish the impact of the social norms of taxpayers on value added tax compliance among the hotels. Results in table 4.15 show a unit change in the social norms of taxpayers caused a change of 48.9% in the VAT compliance of hotels. These results were also significant statistically, an F ratio of 180.68 and a  $p = 0.000 < 0.05$ , the standard probability significance level. The findings were not unforeseen when compared with prior researches. There is consistency with earlier studies that had set forward a unidirectional relationship between social norms and tax compliance. For instance, Ho et al. (2013) advocated that close friends and members of the family may stimulate an individuals' taxpaying decision. These findings similarly support other researches on social norms: Raul and Aldo (2019), a Peruvian study and in the united Kingdom, Larkin, (2019), Hallsworth

& others, (2014) in United States who found a significant impact of norms (social) on compliance in taxes. This implies that the social patterns of Kenyan taxpayers in the hotel sector correlate with those of other taxpayers in other countries that were the focus of previous studies.

#### **4.9.3 Effect of Taxpayer Perceptions on Compliance in Value Added Tax**

The research established an effect perceptions had on compliance in value added tax of hotels. According to the regression outcome for the relationships amid these variables' as presented through table 4.16, a unit change in the perceptions of taxpayers caused a variation of 22.2% in VAT compliance. The results were statistically viable with an F ratio of 53.83 and  $p = 0.000, <0.05$ , a conventional probability significance level. Taxpayers are aware of their tax responsibilities and as such, any non-compliance implies a dissonance on the part of taxpayers, which acts as a remedy for the failures of their government. The presence of a significant relationship is therefore consistent with the theory of cognitive dissonance. In light of previous research, the findings of the study on perceptions are not aloof. Most scholars supported existence of a significant relationships between perceptions & tax compliance. Malaysian studies: Yee, Moorthy & Soon, (2017) and Sritharan & Salawati, (2019). Another research in Uganda, Korutaro et al., 2017 also had similar findings. However, contrasting findings were established in several studies. A South African study of tax compliance in the mining industry disassociated perceptions about fairness, corruption and the efficiency of the tax authority from tax compliance (Netshaulu, 2016). Similarly in Ethiopia, these variables were not significantly correlated with tax compliance (Getacher & Abera, 2014).

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND IMPLICATIONS

#### 5.1 Introduction

The section present summary findings discussed under the previous chapter, as conferring with the research objectives. This was the ending chapter which thus serve to conclude the research. Research limitations and policy implications, as well as implications for managerial practice and heoretical implications are similarly presented. The section concludes by making suggestions for additional research.

#### 5.2 The Summary for Findings

Kenya has for long experienced budgetary shortfalls over the years and KRA as the agency mandated with the tax collection responsibility has faced challenges in meeting the targets for revenue as set by the national treasury. A huge factor for the continuously missed revenue targets is the low level of compliance among the taxpayers in country. The study sought to establish influences of compliance in VAT among hotels and results are summarized as under the specific objectives of the study.

##### 5.2.1 Taxpayer Trust and VAT Compliance

The study established that taxpayers trust in the revenue authority indeed has influence on tax compliance of hotels in Nakuru County. The results indicated a positive correlation between trust and VAT compliance with a correlation coefficient of 0.368 which is moderately low. In the regression analysis, this trust had significance in its relationships with compliance in hotel VAT ( $\beta = 0.370$ ,  $\rho < 0.05$ ). Even though the results portray a small effect of trust on compliance, findings resonate with the slippery slope model's assumptions for compliance to taxes (Kirchler, 2008) that trust of taxpayers' trust in authorities increases compliance. The practical implication of these findings is that the revenue authority should focus on

building trust with the taxpayers in order to foster compliance through trust. Thus, the institution should employ more professional employees and ensure that they act professionally, be honest in dealing with taxpayers among other trust enhancing activities.

### **5.2.2 Social Norms and VAT Compliance**

Norms of a social kind were discovered to positively correlate to compliance in hotel VAT with an  $r$  coefficient = 0.699. Thus a strongly positive association was depicted in social norms and compliance in VAT variables, indeed a good reason for the revenue authority to invest in campaigns that will positively change the tax compliance patterns of taxpayers. Regression results laid a positively significant impact of social norms on hotel VAT compliance ( $\beta = 0.716$ ,  $\rho < 0.05$ ). These findings as expected are in line with theory or planned behavior (Ajzen, 1991). They similarly support prior studies (Hallsworth et al, 2014; Ayodele et al., 2019 and Sasmaz, 2019).

### **5.2.3 Perceptions and VAT Compliance**

Perception about government have positively correlate to compliance in VAT,  $r$  coefficient = 0.471. Pertinent matters for which taxpayers judge a performing government were used to measure perceptions and the regression results were indicative of a medium significant effect of perceptions on VAT compliance among hotels ( $\beta = 0.462$ ,  $\rho < 0.05$ ). In theory, taxpayer actions are influenced by their perception about their government. According to the theory of psychological consistency, dissonance occurs when individuals, being aware of the consequences of their action proceed to do them. The findings of this study indicate the imbalance between VAT compliance and perceptions that result from the taxpayers' actions.

#### **5.2.4 Overall Effect of Variables towards Compliance in VAT**

Combining the effects of trust, social norms and perceptions yielded a correlation coefficient of 0.710, denoting a strong degree of association between these variables and VAT compliance. The model was significant in predicting VAT compliance, with an F value 63.262,  $P < 0.05$  at 95% confidence level. Regarding regression, the beta coefficients for the independent variables of trust, social norms and perceptions were  $\beta_1 = 0.286$ ,  $\beta_2 = 0.625$ ,  $\beta_3 = 0.395$  respectively.

These findings have an implication that an improvement in the level trust and perceptions of taxpayer, and most importantly in the social norms will significantly influence value added tax compliance among hotels in Nakuru County. The social norms were defined by the influence of what others do as well as the influence of the significant others on tax compliance decisions of taxpayers. It means therefore that tax compliance will increase if the revenue authority can design tax education programs that will positively change people's norms towards tax compliance.

#### **5.3 Conclusion**

In a tax system where the taxpayer is entrusted to file own returns and therefore determine own tax liability, self-interest will always ensue. As a cure, internal motivations are very important components of compliance to any tax system. This is due to reason that they have a straight effect on the VAT revenue amount that the revenue authority collects within a certain period of time. OLS regressions found study variables to have a positive association with compliance in VAT.

From descriptive statistics, majority of the respondents agreed that KRA acts fairly towards hotel taxpayers and that KRA hires professional and dedicated employees (mean of 4.24 and 4.23 respectively). The correlation results have an implication that



more resources should move towards creating a trustworthy environment for the revenue authority. Even with the challenges that KRA to this end, in achieving revenue targets, there is need to cap on the overstretching of its powers in order to gain trust. The study therefore concludes that the revenue authority should focus on enhancing the taxpayers' free will to comply with taxes. It therefore requires KRA to rethink its strict application of the law, the most relationship damaging aspect of the revenue authority.

The descriptive statistics equally portray respondents to be in agreement that social norms affect VAT compliance, with a mean of 3.88. Regarding inferential statistics, correlation and regressions analyses established positive associations as well as causal relationships amid social norms and VAT compliance. Apparent from the results therefore, Kenyan revenue agencies should improve the performance of VAT revenue through managing compliance by creating a motivation that stems from social norms. Therefore steps should be taken to ensure that taxpayers are made to believe that their counterparts are tax compliance. Measures that can develop positive tax compliance norms among individual taxpayers need reinforcement in order to attain compliance to tax.

Descriptive statistics similarly reveal that most respondents' agree that perceptions influences VAT compliance. Using inferentials, correlation and regression analysis revealed a positive association of trust, social norms and perceptions to VAT compliance. Reforming public policy to necessitate a speedy address of injustices as well as enhancing debt sustainability and ensuring an equitable distribution of tax benefits will work good in transforming perceptions towards tax compliance.

## **5.4 Research Implication**

An overriding objective in the research was examining factors that affected compliance in Value Added Taxes among Hotels of Nakuru County, from which three objectives were crystalized. Taxpayer trust in the revenue authority, the social norms and perceptions were hypothesized as independent variables while Value Added Tax Compliance formed the dependent variable. The research outcomes present serial implications on various stakeholders. The outcome provides wealthy implications to scholars, policy makers and business practitioners.

### **5.4.1 Implications on Theory**

Research results expands the frontiers of knowledge, adding to the existing literature by confirming empirically, that indeed, trust in the revenue authority, social norms and perception about the government influence the level of Value Added Tax compliance among hotels. The study lends credence to the relationships in trust, social tax norms as well as perceptions on one hand and compliance in Value Added Taxes on the other hand (Widuri et al., 2019; Raul & Aldo, 2019; Sritharan & Salawati, 2019). By empirically testing the extent to which these variables are associated to Value Added Tax compliance, adds to academic knowledge in several ways by providing evidence pointing towards significant application of trust, norms and perceptions that will lead to heightened levels of Value Added Tax performance. The research confirmed various theoretical contributions and advances support for the relationships hypothesized. The results strengthens literature by confirming the postulations of the social contract theory (Goodfellow & Owen, 2018; Umar, Derashid & Ibrahim, 2017).

The finding also confirmed the prepositions of the theory of planned behavior as supported (Nurwanah et al., 2018). The proposition of the cognitive dissonance

theory that individuals behave in a manner as to avoid psychological inconsistency found support in this study. The perceptions of taxpayers were found to influence tax compliance as people know that it is wrong to evade taxes. The findings demonstrate that an approach on the variables of this study is being important in a developing nations as it helps in identifying theories unique to taxpayers and improve the validity of such theories developed in advanced economies. The study has demonstrated that taxpayers do operate in different settings and their compliance to taxes is based on their judgment about trust, norms and perception, as postulated by various theories.

#### **5.4.2 Policy Implications**

The variables of trust, social norms and perceptions had significant results on Value Added Tax compliance of hotels. The study outcomes present beneficial suggestions policy creators in the government and particularly the Kenya Revenue Authority. KRA has previously lacked a professional and positive interaction with taxpayers (Ndumia, 2013). Taxpayers are very crucial to Kenya's development by contributing towards government revenue. This study could guide policy makers to develop a trusting relationships with taxpayers in the hotel context, which is important in aiding taxpayers sound and prudent tax compliant decisions. The findings of the study depict social tax norms as well as perceptions each exhibit positive and strong influence towards compliance in Value Added Taxes. The joint influence of trust, norms and perceptions significantly enhanced these individual relationships. Policy can be developed that encourage the sharing of positive tax norms among hotel taxpayers. Similarly, policies that will enhance an expedite use of tax resources while avoiding corruption can positively rally hotel taxpayers' towards compliance. Also, a recommendation for policy is made for stakeholders to increase

funding for social research in tax to enable scholars to help in imparting the best possible solutions to the turbulent tax non-compliance environment in the country.

### **5.4.3 Implication in Managerial Practice**

Immense implication on managerial practice are cited by the research, particularly with respect to tax decisions and scope of operation of the revenue authority. First, it has implications in terms of tax law enforcement, human resource management practices, service quality and taxpayer satisfaction. The revenue authority therefore is required to revamp its internal processes in order to enhance and accelerate a trusting taxpayer environment. Similarly, KRA should rethink its strict enforcement of the tax law since it damages trust (Kirchler et al., 2010). On social norms, the need for KRA to also strategize on tax education programs that will positively influence the norm system of taxpayers is recommended to enhance descriptive tax c norms. The revenue authority should strive to avoid the holding of unfavourable beliefs about tax avoidance, evasion as well receiving non-compliance information by taxpayers. Focus should be accorded to complying taxpayers and how they can influence their peers to comply. Regarding perceptions, a judicious use of tax resources in executing services and projects in the country is recommended. The government equally should ensure that public spending is on priorities and that tax benefits are equitably distributed.

The managerial practices of most hotels indicate that behaviors of participants in the hotel sector seem too generic, (KATO, 2014) implying that if one hotel successfully adopts a behavior such as tax non-compliance, then more hotels will follow suit. Therefore, hotel establishments are encouraged to initiate positive tax norms as a measure of championing economic growth through accelerated heights of Value Added Tax compliance.

### **5.5 Study Limitation**

Research was undertaken in County of Nakuru, on hotels, a tourist rich destination in the country. Even though these hotels are large in size, and of standard research conditions with respect to VAT, effects of taxpayer trust, social tax norms as well as perceptions to compliance may significantly differ when another study area is chosen. Essentially, the impact of the variables in consideration ought to be measured for all hotels that are within the precincts of VAT in the country. The study encountered various limitations and these are brought to the reader's attention.

First, it was difficult to access institutional research data, the Tourism Fund for instance. It took so much time and effort to eventually gain access to the data. Nevertheless, the researcher worked hard to meet the institutions' pre-requisite conditions for granting access. Secondly, the study was affected by the respondents suspicion about the true intention of the research. They posed questions as to whether the outcome of the study will work against them by agitating a sour relationship with KRA possibly from their skeptical approaches to non compliance. The researcher however endeavoured to guarantee the respondents that the outcome would be purely academic and this helped ease the suspicion. There was also a challenge in collecting data from the hotels in the target industry. Since the County is vast and with expanded businesses in the target industry, it was difficult to manoeuvre throughout to reach the hotels selected for sampling. As a cure, the study used research assistants who were trained and sent to different sub-counties for that purpose, this proved appropriate for data collection.

### **5.6 Suggestions for Further Research**

The R-square of the model was the major limitation of this research, just explaining 49.6 per cent of the changes in VAT compliance leaving 50.4 % unexplained. Further

compliance can be clarified with the inclusion of extra variables outside those applied in the model. In particular, the power of the revenue authority could be incorporated with trust in the slippery slope model to test compliance in taxes, is suggested to future researchers. Also, the study was done in one industry, the generalization of results to unrelated industries may not be objective. Studies should be done on the effect of similar variable in other industries. This will offer the basis for comparison of VAT compliance parameters in different industries.

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## APPENDICES

### Appendix 1: Questionnaire

This is a study on **factors influencing Value Added Tax Compliance among hotels in Nakuru County**. The information obtained is purely academic and will be accorded maximum privacy. Kindly complete this survey accurately.

#### Instructions

Kindly tick appropriately. Make reference this key below where numbers are used:

*(5= strongly Agree, 4= Agree, 3= Neutral, 2= Disagree, 1= Strongly Disagree)*

#### SECTION A: GENERAL INFORMATION

**I. Name of Hotel (Optional).....**

**II. Kindly indicate the period of time you have been employed at the hotel**

i. Below 1 year' ( )

ii. 1 - 2 years' ( )

iii. 2 - 5 years' ( )

iv. Above 5 years' ( )

**III. What is your level of education?**

( ) Secondary education ( ) Technical level

( ) Undergraduate ( ) Masters and above

**IV. What is the average monthly sales for the hotel?**

Below Ksh 250,000 ( )

Between Ksh. 250,000 - Ksh. 419,999 ( )

Between Ksh. 420,000 - Ksh. 749,999 ( )

Between Ksh. 750,000 - Ksh. 1,000,000 ( )

Above Ksh. 1,000,000 ( )

**V. VAT registration status of the hotel**

( ) Registered ( ) Not registered

**VI. Comment on KRA's VAT enforcement measures (audit, fines and penalties)**

**SECTION B: TRUST IN KENYA REVENUE AUTHORITY**

1. Indicate the level of your agreement to these statements by ticking one box on a 5-point scale.

|   | <b>5</b> | <b>4</b> | <b>3</b> | <b>2</b> | <b>1</b> |
|---|----------|----------|----------|----------|----------|
| KRA hires professional and dedicated employees          |          |          |          |          |          |
| Revenue officers embrace dedication and professionalism |          |          |          |          |          |
| KRA is honest and open in engaging taxpayers            |          |          |          |          |          |
| KRA's staff interact fairly with taxpayers              |          |          |          |          |          |
| KRA treats hotel taxpayers in a respectful manner.      |          |          |          |          |          |
| KRA acts fairly towards hotel taxpayers.                |          |          |          |          |          |
| KRA is treating hotel taxpayers correctly               |          |          |          |          |          |

**SECTION C: SOCIAL NORMS**

2. Please read the following statements carefully and respond by ticking in one box as appropriate on a 5 point scale for each statement.

|   | <b>5</b> | <b>4</b> | <b>3</b> | <b>2</b> | <b>1</b> |
|---|----------|----------|----------|----------|----------|
| Most hotel taxpayers don't cheat on their taxes.      |          |          |          |          |          |
| Many VAT taxpayers correctly report expenses.         |          |          |          |          |          |
| Hotels correctly report sales on tax returns.         |          |          |          |          |          |
| Hotels pay their VAT dues on time.                    |          |          |          |          |          |
| Many individuals can do any action in avoiding taxes. |          |          |          |          |          |
| Our employees support compliance to VAT.              |          |          |          |          |          |
| Our business peers support VAT compliance.            |          |          |          |          |          |
| I think hotel owners support VAT compliance.          |          |          |          |          |          |
| Tax agents of hotels support VAT compliance.          |          |          |          |          |          |

**SECTION D: PERCEPTIONS ABOUT THE GOVERNMENT**

3. Kindly respond appropriately to indicate the level of your agreement to these statements by ticking one box on a 5-point scale

|  | 5 | 4 | 3 | 2 | 1 |
|--|---|---|---|---|---|
| The tax system is fair and it enhances VAT compliance  |   |   |   |   |   |
| I perceive that corruption in Kenya reduces VAT compliance   |   |   |   |   |   |
| There is equal distribution of tax benefits to all industries.   |   |   |   |   |   |
| The government of Kenya prioritizes expenditure that benefits all citizens.  |   |   |   |   |   |
| I perceive that the high level of public debt reduces VAT compliance by hotels                                     |   |   |   |   |   |
| I perceive that the Kenyan public debt is unsustainable and as such, reduces the level of VAT compliance by hotels |   |   |   |   |   |

**SECTION E: TAXPAYER EDUCATION**

4. Indicate the level of your agreement to these statements by ticking one box on a 5-point scale

|  | 5 | 4 | 3 | 2 | 1 |
|--|---|---|---|---|---|
| I have knowledge of the hotels VAT obligation  |   |   |   |   |   |
| Taxpayer sensitization programs positively influence VAT compliance of hotels        |   |   |   |   |   |
| A representative of the hotel attends tax seminars conducted by KRA                  |   |   |   |   |   |
| Tax seminars organized by KRA are effective in promoting VAT compliance among hotels |   |   |   |   |   |
| KRA has efficiently sensitized the hotels about payment of VAT                       |   |   |   |   |   |



**SECTION F: VAT COMPLIANCE**

Kindly read the scenario below and indicate your opinion on questions that follow (by ticking appropriately).

John is a manager of a hotel which was registered for VAT in June 2012 substantially reducing sales in the succeeding years until 2016. VAT was assimilated over time and sales have been growing in the last few years. John however feels that VAT is costing the business huge sales and has heeded the advice of a friend to fake deductible expenses to reduce the ultimate VAT payable. He is aware of the consequences of such plans and he is also conscious about the audit possibility and hence, the need to file returns on time and pay taxes.

|  | <b>5</b> | <b>4</b> | <b>3</b> | <b>2</b> | <b>1</b> |
|--|----------|----------|----------|----------|----------|
| If I were in a similar situation, I will not have registered for VAT even if I qualified to.                                   |          |          |          |          |          |
| If I were in a similar situation, I will wrongfully increase deductible expenses e.g. purchases so as to reduce to VAT payable |          |          |          |          |          |
| Maintenance of proper records of VAT documents is important to the business.   |          |          |          |          |          |
| It is my responsibility to file VAT returns on or before the 20th day of every month.  |          |          |          |          |          |
| I have a duty to pay the VAT due to KRA after filing VAT returns   |          |          |          |          |          |

Thank you for answering the questionnaire. The researcher will endeavor to protect your personal and business rights by ensuring security to this information.

Thank you again

## Appendix 2: Study Budget

| No.          | Activity                                      | Amount<br>(Kshs) |
|--------------|---|------------------|
| 1.           | Proposal development                          | 12,000           |
| 2.           | Travel costs                                  | 18,000           |
| 3.           | Preparation of questionnaires                 | 5,000            |
| 4.           | Distribution and collection of questionnaires | 32,000           |
| 5.           | NACOSTI                                       | 1,500            |
| 6.           | Data Analysis                                 | 30,000           |
| 7.           | Preparation of final report                   | 6,000            |
| 8.           | Plagiarism check                              | 2,000            |
| 9.           | Publishing                                    |                  |
| <b>Total</b> |   | <b>106,500</b>   |

### Appendix 3: Theories

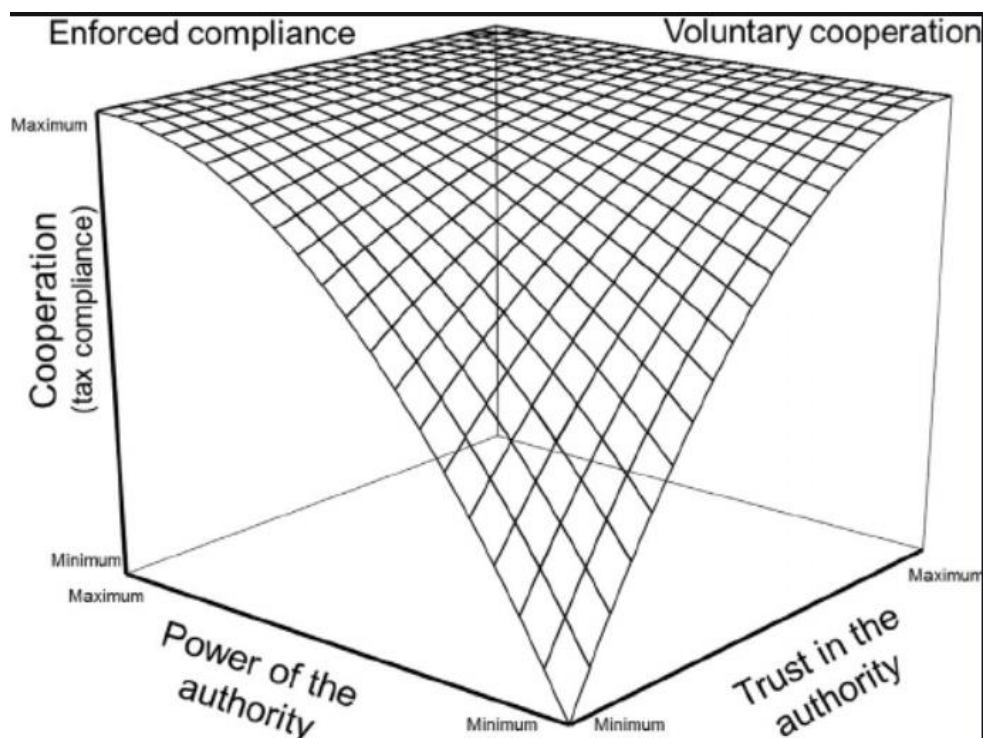


Figure 7.1: Slippery Slope Model (Kirchler, 2008)

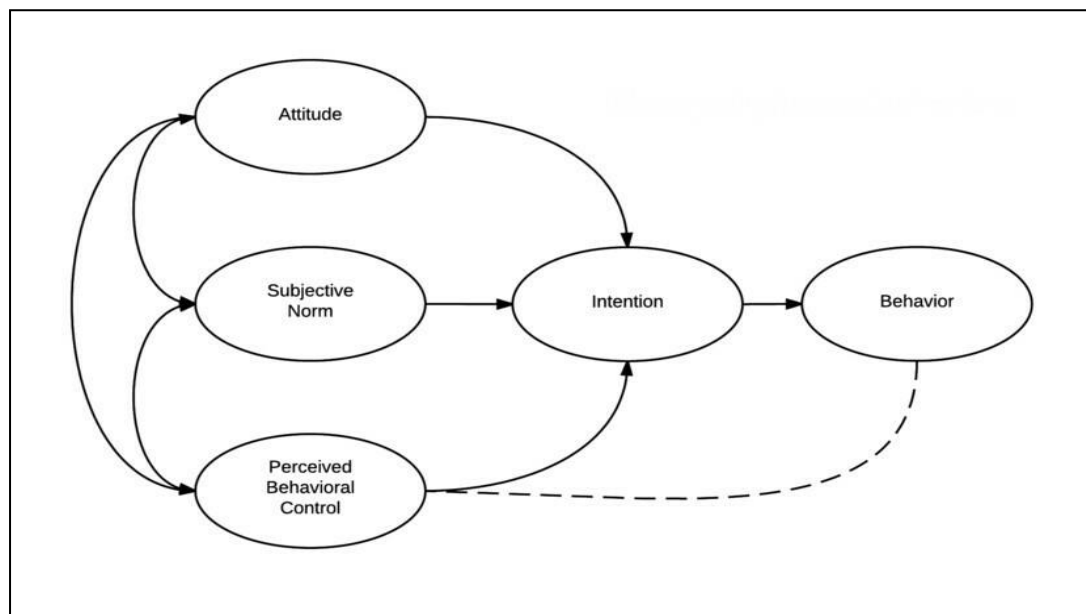


Figure 7.2: Theory of Planned Behavior (Ajzen, 1991)

**Appendix 4: Work Plan**

|   | <b>July<br/>19</b> | <b>Aug<br/>19</b> | <b>Sep<br/>19</b> | <b>Oct<br/>19</b> | <b>Dec<br/>19</b> | <b>Jan<br/>20</b> | <b>Feb<br/>20</b> | <b>Aug<br/>20</b> | <b>Nov<br/>20</b> |
|---|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Research proposal topic                                 |                    |                   |                   |                   |                   |                   |                   |                   |                   |
| Proposal development                                    |                    |                   |                   |                   |                   |                   |                   |                   |                   |
| Submission of proposal                                  |                    |                   |                   |                   |                   |                   |                   |                   |                   |
| proposal presentation                                   |                    |                   |                   |                   |                   |                   |                   |                   |                   |
| Data collection   |                    |                   |                   |                   |                   |                   |                   |                   |                   |
| Data Analysis   |                    |                   |                   |                   |                   |                   |                   |                   |                   |
| Submission of final project                             |                    |                   |                   |                   |                   |                   |                   |                   |                   |
| Presentation of final project                           |                    |                   |                   |                   |                   |                   |                   |                   |                   |
| Correction and approval of final project by supervisors |                    |                   |                   |                   |                   |                   |                   |                   |                   |
| Submission of Golden Copies                             |                    |                   |                   |                   |                   |                   |                   |                   |                   |

## TABLES

**Table 7.1: The GDP Attributable to Food and Accommodation Services**

| <b>Yr</b>  | <b>2014'</b> | <b>2015'</b> | <b>2016'</b> | <b>2017'</b> | <b>2018'</b> |
|------------|--------------|--------------|--------------|--------------|--------------|
|            | million.     | million.     | million.     | million.     | million.     |
| <b>GDP</b> | 49,151       | 49,356       | 51,644       | 56,589       | 66,630       |

Source: (KNBS, 2019)

**Table 7.2: Total Budget and Actual VAT Revenue Statistics (Ksh. Million)**

| <b>Tax Head/Year</b>               | <b>2014/2015</b> | <b>2015/2016</b> | <b>2016/2017</b> | <b>2017/2018</b> | <b>2018/2019</b> |
|------------------------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Total Government Revenue</b>    | 1,113,509        | 1,236,453        | 1,403,938        | 1,533,820        | 1,838,518        |
| <b>Total Tax Collection</b>        | 1,022,069        | 1,336,880        | 1,277,204        | 1,341,387        | 1,621,723        |
| <b>Total VAT Collection</b>        | 259,685          | 289,213          | 339,034          | 356,856          | 435,886          |
| <b>Target VAT</b>                  | 264,872          | 310,264          | 359,766          | 412,688          | 464,215          |
| <b>VAT as a % of Total Tax</b>     | 25.4%            | 21.6%            | 26.5%            | 26.6%            | 26.9%            |
| <b>VAT as a % of Total Revenue</b> | 23.3%            | 23.4%            | 24.1%            | 23.3%            | 23.7%            |

Source: (KRA, 2015; KRA, 2018; KNBS, 2019)

**Table 7.3: List of Hotels Surveyed in Nakuru County**

|    |                           |    |                             |
|----|---------------------------|----|-----------------------------|
| 1  | Jamaica Club              | 36 | Mona Hotel                  |
| 2  | New Maxland               | 37 | Singus Cafe                 |
| 3  | Amity Hotel               | 38 | Step Hotel                  |
| 4  | Brooks Lodge              | 39 | Tusker Springs              |
| 5  | Caravan Motel             | 40 | Jordan Hotel                |
| 6  | Club Empire               | 41 | Windy Ridge Resort          |
| 7  | Club Venus                | 42 | Aberdares Guest Lodge       |
| 8  | Dodoma Guest House        | 43 | Aloepark Hotel              |
| 9  | Elementaita Bandas        | 44 | Astorian Grand Hotel        |
| 10 | Faulu Butchery            | 45 | Bonus Rest Lodge            |
| 11 | Framjo                    | 46 | Cactus Eco Camp And Lodge   |
| 12 | Heshima Guest House       | 47 | Chui Lodge                  |
| 13 | Hills View Guest House    | 48 | Club Masters                |
| 14 | Kikopey Butchery          | 49 | Comfort Hotel               |
| 15 | Lesia Lodging             | 50 | D M Lodge                   |
| 16 | Life Time Inn             | 51 | Decasa Hotel                |
| 17 | Mamis Victory Cafe        | 52 | Dove Nest Lodge Limited     |
| 18 | Mawe Mbili                | 53 | Eagles Point Camp           |
| 19 | Modern Guest House        | 54 | Fai Amarillo Ltd            |
| 20 | Orion Guest House         | 55 | Fina Garden Resort          |
| 21 | Pink Lake Man             | 56 | Gal Bubbles Leisure Village |
| 22 | Shepherd Resort           | 57 | Genesis Guest House         |
| 23 | Syndicate Resort          | 58 | Golden Bay Hotel            |
| 24 | Travellers Hotel          | 59 | Grey Sand Hotel And Lodges  |
| 25 | View Point Stopover Hotel | 60 | High End Guest Houses       |
| 26 | Mashala Hotel             | 61 | Higway Pork Place           |
| 27 | Kenmaries Holding Ltd     | 62 | Hotel The Palace            |
| 28 | Sultan Lodge              | 63 | Jax Safari Hotel            |
| 29 | Buffallo Club Olenguruone | 64 | Jolly Inn                   |
| 30 | Hot Pot Dishes            | 65 | Kamusyi Kings Guest House   |
| 31 | Kiqwetu Foods             | 66 | Kanyua Hotel                |
| 32 | Farmers Inn               | 67 | Kenvash Hotel               |
| 33 | Green Garden Lodge        | 68 | Kiira Cottages              |
| 34 | Greenland Holiday Centre  | 69 | Kilimo Hotel                |
| 35 | Mama Kevin Cafe           | 70 | Kinja Flamingo Cottages     |

|     |                               |     |                              |
|-----|-------------------------------|-----|------------------------------|
| 71  | Klub Venus                    | 106 | Sawela Lodge Naivasha        |
| 72  | La Bella Inn                  | 107 | Sher Club House              |
| 73  | Lake Naivasha Holiday Inn Ltd | 108 | Smart Butchery               |
| 74  | Lake Naivasha Ymca Kenya      | 109 | Snack Sport Cafe             |
| 75  | Lips Lounge                   | 110 | Sport Club                   |
| 76  | Loidia Camp                   | 111 | Sungura Cottages             |
| 77  | Lucita Farm Guest House       | 112 | Sweet Banana Lodge           |
| 78  | Malewa River Lodge            | 113 | Tgrv Ltd                     |
| 79  | Mbuzi Foods Ltd               | 114 | The Nest Boutique Hotel Ltd  |
| 80  | Mid Corner Lodging            | 115 | The Pot Limited @Panda       |
| 81  | Mojito'S Lounge               | 116 | Tim Tim Guest House          |
| 82  | Mt Longonot Lodge Ltd         | 117 | Tripple Eden Rock Resort     |
| 83  | Mundui Homestay               | 118 | Twin Spot Guest House        |
| 84  | Muwapeka Ltd Kenchic Inn      | 119 | Wa Mash Hotel                |
| 85  | Mystique Lounge               | 120 | Walk Inn Café                |
| 86  | Naivas Ltd Ndogo              | 121 | Westend Service Station      |
| 87  | Naivasha Garden Villa Annex   | 122 | Wileli Wildlife Conservancy  |
| 88  | Naivasha Kongoni Lodge Ltd    | 123 | Yellow Green Tree            |
| 89  | Naivasha Pork City            | 124 | Aspen Hotel                  |
| 90  | Naivasha Safari Cafe          | 125 | Bernard Kamoche Taifa Hotel  |
| 91  | Naivasha Sopa Resort          | 126 | Bethlehem Butchery           |
| 92  | Narok Line Hotel              | 127 | New Coco Savannah            |
| 93  | Newstead Hotel Ltd Sunny Hill | 128 | Alphine Hotel Limited        |
| 94  | Njeri Star Complex            | 129 | Amoodys Hotel                |
| 95  | Off Road Tavern               | 130 | Annes Cafe Agrisoko Ent Ltd  |
| 96  | Olangare Ltd Carnellys Camp   | 131 | Annex Lodge                  |
| 97  | Oloiden Camp                  | 132 | Anny Guest House             |
| 98  | Othaya Annex B                | 133 | Apex Resort Ltd              |
| 99  | Othaya Annexe A               | 134 | Apple Tea Room               |
| 100 | Pacific Camp & Lodges         | 135 | Armison Hotel                |
| 101 | Polo Ventures Ltd Total       | 136 | Atv Africa Ltd Jikonis Hub   |
| 102 | Pyramid Hotel                 | 137 | Bedwings Guest House         |
| 103 | Rillopark Hotel               | 138 | Beyond Hotels Recreation Ltd |
| 104 | Rusholme Company Ltd          | 139 | Bison Hotel                  |
| 105 | Sakata Camp And Inn           | 140 | Blue Bay Hotel               |

|     |                        |     |                              |
|-----|------------------------|-----|------------------------------|
| 141 | Buffallo Resort        | 178 | Hotel Tobbys Ltd             |
| 142 | Cafe Delight           | 179 | Hotel Wagon Wheel            |
| 143 | Cafe Guava             | 180 | Hygienic Butchery Cafe       |
| 144 | Chambers Resort        | 181 | Hygienic Butchery Highway    |
| 145 | Check Points Club      | 182 | Impala Club                  |
| 146 | Choma Base Rest        | 183 | Indiana Den                  |
| 147 | Choma Bite             | 184 | Inn Breeze Hotel             |
| 148 | Club Afrique Lounge    | 185 | Jafson Investments           |
| 149 | Club Park Villa        | 186 | Jamil Hotel                  |
| 150 | Club Senses            | 187 | Jams Hotel                   |
| 151 | Cute Kitchen           | 188 | Jikoni Hub                   |
| 152 | East Mark Hotel        | 189 | Joes Inn                     |
| 153 | Echoes Guest House     | 190 | Joyann Guest House           |
| 154 | Engashura One In One   | 191 | Joyma Guest House            |
| 155 | Enterprise Hotel Ltd   | 192 | Jumuia Guest House           |
| 156 | Free Hold Chicken Cafe | 193 | Kimper Lodge                 |
| 157 | Giddo Coffee House Ltd | 194 | Kinamba Evans Enterprises    |
| 158 | Gilani Enterprises     | 195 | Kings and Queens Ventures    |
| 159 | Gilanis Enterprises    | 196 | Klub Mexico                  |
| 160 | Gituamba Lodge         | 197 | Komfy Guest House            |
| 161 | Glane Enterprises      | 198 | Kuku Food Limited            |
| 162 | Glory Hotel            | 199 | Kunste Hotel                 |
| 163 | Golden Palace Hotel    | 200 | La Simpo Stop Over Resort    |
| 164 | Happy Cow Dairies Ltd  | 201 | Lake Solai Ltd               |
| 165 | Harmony Guest House    | 202 | Lanet Matfam Resort          |
| 166 | Hassan Cafe            | 203 | Leopard View Hotel           |
| 167 | Hayat Retaurant        | 204 | Lion Guest House             |
| 168 | Hedaya Suites          | 205 | Tea Room                     |
| 169 | Home Pride Cafe        | 206 | Mainstreet Coffee Lounge     |
| 170 | Honey Combers          | 207 | Manyatta Hotel               |
| 171 | Hot Spring Hotel       | 208 | Marhaba Lodge                |
| 172 | Hotel Bubbles          | 209 | Mbuma Guest House            |
| 173 | Hotel Cathay           | 210 | Mbweha Camp                  |
| 174 | Hotel Hemster          | 211 | Motel Magnolia               |
| 175 | Hotel Indica           | 212 | Mr Cafe Extra M Investments  |
| 176 | Hotel Jamka            | 213 | Naff Butchery And Hotels     |
| 177 | Hotel Joska            | 214 | Nakuru Business Ventures Ltd |



|     |                             |     |                                  |
|-----|-----------------------------|-----|----------------------------------|
| 215 | Nakuru Chill And Grill      | 250 | The Patron Club                  |
| 216 | Nakuru City Inn Hotel       | 251 | Ufanisi Resort                   |
| 217 | Nakuru Coffee House         | 252 | Uken Investment Ltd              |
| 218 | Milimani Guest House        | 253 | Vascos Lounge                    |
| 219 | Nakuru Pwani Hotel          | 254 | Vesters Wine And Spirits         |
| 220 | Nakuru Smiles Lodge         | 255 | Vienna Woods Holiday Inn         |
| 221 | Nax Vegas                   | 256 | Vineyard Court                   |
| 222 | Nax Vegas Lounge            | 257 | Vioken Fast Food                 |
| 223 | Nax'S Fries Planet Caterers | 258 | Wengine Mirangi Hotel            |
| 224 | New Mirangi Hotel           | 259 | West Gate Café                   |
| 225 | New Muko Rooms              | 260 | Whistles Guava                   |
| 226 | New Sabena Club             | 261 | Xscape Resort                    |
| 227 | New Sideways Hotel          | 262 | Grand Winston Hotel              |
| 228 | Nyama Choma Centre          | 263 | Jacaranda Resort                 |
| 229 | Nyamakima Guest Resourt     | 264 | Ziwa Bush Lodge                  |
| 230 | Nyar Kosele Beach           | 265 | Camp David                       |
| 231 | P N N Pork Butchery         | 266 | Nakuru Golf Club                 |
| 232 | Pacific Guest House         | 267 | Oloika B                         |
| 233 | Pekars Lodge                | 268 | Agricuture Resource Centre Hotel |
| 234 | Peniel Apartments Ltd       | 269 | Charity Butchery                 |
| 235 | Platinum Seven De Lounge    | 270 | Egerton Midway Guest House       |
| 236 | Pointers Lounge             | 271 | Hanan Guest House                |
| 237 | Rainbow Hotel               | 272 | Konyo Guest House                |
| 238 | Rangers Castle              | 273 | Njoro Country Club               |
| 239 | Ranges View Annex           | 274 | Salmon Hotel                     |
| 240 | Ribbon Cafe C               | 275 | Silver Springs                   |
| 241 | Safari Club                 | 276 | Highway Lodge 2                  |
| 242 | Salama Resort               | 277 | Lee Resort                       |
| 243 | Shabab One In One           | 278 | Mkulima Lodge                    |
| 244 | Shooters Rest B             | 279 | Park Villa                       |
| 245 | Smooth Rift Merchant        | 280 | Rafiki Butchery                  |
| 246 | Stageview Members Club      | 281 | Green Fortess Hotel And Lodge    |
| 247 | Tas Digital                 | 282 | Salgaal Lodge                    |
| 248 | The Avenue Lounge           | 283 | Legacy Guest Suites              |
| 249 | The Musterseed Guest House  | 284 | Subukia Village Villas           |

Source: Author (2020)

## Appendix 5: Request For Research Permit



Kenya School of Revenue  
Administration

ISO 9001:2015 CERTIFIED



KENYA REVENUE  
AUTHORITY

REF: KESRA/NBI/036

20<sup>th</sup> November, 2019

TO WHOM IT MAY CONCERN

**RE: REQUEST FOR RESEARCH PERMIT:**  
**TONNY MAELO - REG. NO. MU/KESRA/105/0008/2017**

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 "Factors influencing value added tax compliance among hotels in Nakuru county."

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

Thank you.

**Dr. Marion Nakosa PPH**  
Head Academic Research  
**KESRA**








P. O. Box 48240 – 00100, Nairobi Email: [ksra@ksra.go.ke](mailto:ksra@ksra.go.ke) Tel: 020 7158775/9



Tulipe Ushuru Tujitegemeo!

ISO 9001:2015

### Appendix 6: Research Permit

|  |  |
|--|--|
| <br>REPUBLIC OF KENYA   | <br><b>NATIONAL COMMISSION FOR<br/>SCIENCE, TECHNOLOGY &amp; INNOVATION</b>                           |
| Ref No: <b>672889</b>  | Date of Issue: <b>18/December/2019</b>   |
| <b>RESEARCH LICENSE</b>  |  |
|   |  |
| <b>This is to Certify that Mr. Tonny Maelo of Kenya School of Revenue Administration, has been licensed to conduct research in Nakuru on the topic: FACTORS INFLUENCING VALUE ADDED TAX COMPLIANCE AMONG HOTELS IN NAKURU COUNTY for the period ending : 18/December/2020.</b> |  |
| License No: <b>NACOSTI/P/19/3131</b>   |  |
| <b>672889</b><br>Applicant Identification Number   | <br>Director General<br><b>NATIONAL COMMISSION FOR<br/>SCIENCE, TECHNOLOGY &amp;<br/>INNOVATION</b> |
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