

**MODERATING ROLE OF GOVERNMENT FACILITATION ON THE  
RELATIONSHIP BETWEEN EXTRINSIC FACTORS AND TAX  
COMPLIANCE AMONG SMES IN KISUMU**

**BY**

**DUNCAN KATUBAH MUSYOKA**

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**DECLARATION**

**Declaration by Candidate**

I confirm that this is my original work and has not been submitted for presentation at Moi University or any other institution of higher learning.

**Signature .....**

**Date .....**

**DUNCAN KATUBAH MUSYOKA**

**MU/KESRA/0046/2016**

**Declaration by the Supervisors**

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

**Signature .....**

**Date .....**

**Dr. MARION NEKESA (PhD)**

Kenya School of Revenue Administration

**Signature .....**

**Date .....**

**Dr. MOSES NGONGA**

Kenya School of Revenue Administration

**DEDICATION**

I wish to dedicate this research project to my dear family for their patience and support offered to me during my studies.

## **ACKNOWLEDGEMENT**

I thank the almighty God for giving me strength, knowledge and wisdom to undertake this research project. I'm also extremely grateful to my Supervisors Dr. Naomi Koskei and Dr Moses Ng'onga for his continued guidance, mentorship and motivation throughout the research period.

## ABSTRACT

Tax compliance has remained a major issue across the world with adverse effect of the growth of economies. The consistent failure of the KRA to meet tax revenue projections and targets has sparked debate on factors contributing to tax compliance. The available literature provides evidence that extrinsic factors play an important role in tax compliance behavior among the tax payers. The study sought to establish the moderating role of government facilitation in the relationship between extrinsic factors and tax compliance among Small and Medium Enterprises in Kisumu County, Kenya. The specific objectives of the study included: to establish the moderating effect of government facilitation between social norms and tax compliance among Small and Medium Enterprises in Kisumu County, to determine the moderating role of government facilitation between culture and tax compliance among Small and Medium Enterprises in Kisumu County, to assess the moderating effect of government facilitation on tax morale and tax compliance among Small and Medium Enterprises in Kisumu County, Kenya and to find out the moderating effect of government facilitation in the relationship between extrinsic factors and tax compliance among Small and Medium Enterprises in Kisumu County, Kenya. The study adopted a descriptive research design and it shall be carried out in Kisumu County. The study targeted 3162 SMEs and respondents were owners/managers of these firms. The study used stratified random sampling to select 342 respondents as the sample size. Primary data was collected with the help of questionnaires and the analysis was done using descriptive (means and standard deviations) and inferential statistics (correlation and regression analysis). The findings were presented using tables and figures. The study revealed that social norms and tax morale have significant effect on tax compliance with the moderation of government facilitation. The study concludes that extrinsic factors have significant effect on tax compliance with the moderation of government facilitation. The study recommends that there is need to tax authorities and officials to understand and appreciate the role played by social norms as far as encouraging tax compliance among tax payers is concerned. There should be an increase in accountability of the amount of taxes collected so that the tax payers gain morale in paying taxes hence compliance. Efforts should be put in place of providing incentives as well as increasing the number tax centers where tax payers can easily access to seek for assistance as far as tax matters are concerned.

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**ABBREVIATIONS AND ACRONYMS**

<b>KNBS</b> :	Kenya National Bureau of Statistics
<b>KRA</b> :	Kenya Revenue Authority
<b>SMEs</b> :	Small and Medium Enterprises
<b>SPSS</b> :	Statistical Package for Social Sciences

## OPERATIONAL DEFINITION OF TERMS

- Culture:** It describes the set of norms, belief and value systems that determine how people behave in the society.
- Extrinsic Factors:** These are set of issues that wield their influence from the outside like instance the environmental or culture
- Government Facilitation:** Activities that the government invests in so as to increase tax collection for instance: Tax incentives, tax holidays, economic processing zones, favorable tax polies and regulations.
- Social Norms:** These are the unwritten rules of behavior that are considered acceptable in a group or society
- Tax Morale:** It is the intrinsic willingness of the tax payers to pay tax

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Overview**

This chapter contains the background of the study will lay the contextual and conceptual basis of the study. The statement of the research problem, the objectives as well as the hypotheses is also discussed in this chapter. The justification, scope, assumptions and significance of the study are also well discussed.

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

Taxation is the major source of revenues for governments in developed as well as developing countries. Taxation is also a key channel for financial independence of countries thus reducing external assistance for aid as well as foreign debt (Gobena & Van-Dijke, 2016). Tax compliance is an important driver of tax revenue generation for the government. Compared to developing countries, less developed countries have a relatively higher rate of tax non-compliance. For instance, tax compliance among most developing countries stand at 35% as compared to Africa countries recording a tax compliance rate of below 23% (Gangl, Hofmann & Kirchler, 2015). Most developing countries are also characterized by taxation gaps and budgetary shortfalls resulting into overdependence to foreign support and aid including the use of external debts (Mehmet, 2015).

##### **1.1.1 Global perspective**

Alasfour, Samy and Bampton (2016) say that extrinsic factors are external elements that shape ones actions and personality. These are factors that that can be observed from other individuals while making a decision as it regards a given action. Jayawardane (2015) identified four key extrinsic factors that influence tax compliance behavior; the social norms, culture, tax morale and the perceptions of government accountability. The

role played by culture in shaping ethical decision making process cannot be ignored as far as tax compliance is concerned (Blaufus, Bob, Otto & Wolf, 2017). Farrar, Kaplan and Thorne (2019) indicate that culture determines who individual turn out to be while grouping themselves in different groups that have same beliefs and assumptions. Fochmann and Kroll (2016) identified six groups that define culture; genetics, structure of patterns, normative, historical as well as descriptive. Ayuba, Saad and Ariffin (2016) opine that culture can be classified based on symbols, it is learnt and it can be explicit or implicit.

Tax morale refers to the attitude of the group or the population determining how they comply with the laws on taxation (Gobena & Van-Dijke, 2017). According to Brockmann, Genschel and Seelkopf (2016), people are not only motivated to maximize their own wellbeing but also by their general feeling of the responsibility they have towards their communities. Tax morale is simply the motivation for people to pay taxes. Tax morale is interpreted as a clear comprehension of the values or principles that one has on tax payment liability (Alm, Bloomquist & McKee, 2017). According to Allen, Murphy and Bates (2017), tax compliance is high in countries among countries where there are strict controls and measures for corruption and low bureaucracies. A tax payer is said to have tax morale if he/she thinks it is okay to pay taxes no matter how the money is used by the government or irrespective of how others behave in tax matters. According to Sinnasamy, Bidin and Ismail (2015), tax payers comply with tax laws because of perceived moral obligations to obey the laws of taxation.

Tax compliance is multi-dimensional and it can be defined on the basis of its three key types; payment compliance, filing compliance as well as reporting compliance (Onu & Oats, 2015).

Gangl, Hofmann and Kirchler (2015) define tax compliance as the ability of the tax payers to report all incomes and pay all taxes in fulfillment of the provisions of court judgments, regulations as well as laws governing taxation in the country. Tax compliance can also be defined as the act of the tax payers to file the income tax returns, accurately declare all the taxable incomes and the disbursement of all the payable taxes in a timely manner without the need for follow up from tax authorities (Onu & Oats, 2015). Tax payers who do not comply with the existing laws and regulation of taxation are said to have committed an offence (Kondelaji, Sameti, Amiri & Moayedfar, 2016).

Tax compliance has remained a major issue across the world with adverse effect of the growth of economies. For instance, in Europe, tax compliance comprises about 8% of the Gross Domestic Product (GDP) while in Italy, above 183 billion euros are lost annually through tax non-compliance (Machogu & Amayi, 2016). Across countries in East Africa, tax compliance is relatively high in relation to GDP. According to Oladipupo and Obazee (2016), extrinsic factors play an important role as far compliance with tax is concerned. A study was conducted by Jayawardane (2015) to establish the link between extrinsic factors and tax compliance and a positive relationship was established.

Tax compliance is the degree which the tax payer either abides or fails to abide by the existing rules of tax in the country (Brizi, Giacomantonio, Schumpe & Mannetti, 2015). Most tax authorities are faced with a challenge of ensuring tax compliance among the tax payers. According to Gobena and Van-Dijke (2016), tax compliance largely depend on the measures adopted to deter tax evasion for instance tax audits, penalties as well as fines. In Kenya, tax compliance especially among the Small and Medium Enterprises (SMEs) is very low.



### **1.1.2 Global perspective**

In fact, Kenya is ranked among countries with low income characterized by low tax compliance. The low tax compliance in Kenyan has resulted into failure of the Kenyan Revenue Authority (KRA) to meet the tax revenue collection budgets as well as increased use of external debts. It is against this background of low tax compliance that forms the basis for the current study.

Government facilitation refers to all the support given by the government to realize the desired economic outcome. According to Pántya, Kovács, Kogler and Kirchler (2016), government facilitation implies that the private actors have the initiative of producing public goods or services with the support of the government. This calls for formulation of sound policies and regulations that support the private sector. All tax matters in Kenya are handled by the KRA, which a government tax agent. Government facilitation in the context therefore covers formulation of sound policies and regulations governing taxation in the countries. The KRA plays a facilitator role in enhancing tax compliance by offering of tax incentives including tax reliefs, tax breaks, and tax holidays among others. Government facilitation may also include change of regulations and rules of taxation in favor of the businesses with the aim of enhancing compliance behavior (KRA, 2018).

A Small and Medium Enterprise (SME) is a business either managed by an individual or jointly with 6-40 employees, an annual turnover of US\$50, 000- US\$500,000 and an asset base of US\$50,000 to US\$1 million. Small and Medium Enterprises had largely been defined in terms of employment, turnover and assets to allow for flexibility. However, the thresholds applied in each of the identified parameters differ widely among countries. The definition advanced by the Kenya Small and Medium

Enterprise Authority (2015) was of a small business being one that has fewer than 50 employees or one that records revenue of less than 50 million Kenya shillings. A firm employing more employees than these cut-offs but fewer than 500 employees is classified as a medium-sized business.

The SME sector in Kenya operates in different industries ranging from health, hospitality industry, engineering among others. There are about 1.6 million registered SMEs constituting about 96 per cent of all business enterprises in Kenya (PPOA, 2017). The SMEs contribute to economic growth of the County through creation of employment. Over 10% of the revenue collected in Kenya comes from these SMEs. At the same time, about 30% of the population in Kenya derives their income and revenue from these SMEs (KNBS, 2017). The main sectors include: retail chain distributions, food and beverages restaurants, open air markets, animal sales among others.

There are 3162 registered SMEs in Kisumu County. These SMEs are the engine of economic development and contribute to sustainable growth and employment generation. These SMEs also impart on entrepreneurial knowledge to owners. SMEs in Kisumu County further help in the restructuring of large firms by streamlining manufacturing firms as units. They offer them complementary services by influencing their monopoly in the market. SMEs will be targeted because they are the largest contributor to low tax compliance in Kenyan economy. In addition, the industry is not regulated as there is free entrance and exit. The statistics from the KRA indicate that out of the registered SMEs in Kenya, only about 7,500 are recognized tax payers.

## **1.2 Statement of Problem**

The consistent failure of the KRA to meet tax revenue projections and targets has sparked debate on factors contributing to tax compliance. For instance, KRA failed to

meet revenue collection targets by Kshs. 50 billion and Kshs. 172.4 billion for the financial years 2016/2017 and 2017/2018 respectively (KRA, 2017).

The consistent failure to meet revenue collection targets by the KRA could be attributed to noncompliance behavior among taxpayers especially the SMEs and has resulted into an increase in use of foreign debt by the government to fill the tax revenue gap. For instance, as of March 2018, the external debt stood at USD\$24.9 billion (National Treasury, 2018). The increased use of external debts as a result of failure to meet revenue collection targets is likely to result into low financial independence of Kenya as a country unless efforts are put in place to address this.

A study by Casal, Kogler, Mittone and Kirchler (2016) indicated that Kenya can increase the tax base by Kshs. 79.3% if measures are put in place to increase tax compliance among SMEs. The report of KRA (2013) indicates that a total of Kshs. 108 billion was lost through taxes largely because of the informal sectors as well as the noncompliance among SMEs. The SME subsector is continually increasing and expanding its branch networks yet its overall contribution to tax collection remains relatively low. If no efforts are made to safeguard this trend of tax noncompliance among SMEs, the country would continually lose billions of money and the economy would ultimately slow down.

The available literature provides evidence that extrinsic factors play an important role when it comes to tax compliance behavior among the tax payers. For instance, Jayawardane (2015) carried out an assessment of intrinsic factors and their influence on tax Compliance and noted that the attitudes of the tax payers are critical determinant of tax compliance behavior of the tax payers. Abdul (2017) sought to determine the influence of tax system fairness on tax compliance behavior in Kenya and established

a positive relationship. The study however only covers intrinsic factors. This created the gap which the current study sought to fill by examining the moderating role of government facilitation in the relationship between extrinsic factors and tax compliance among Small and Medium Enterprises in Kisumu County, Kenya.

### **1.3 Research Objectives**

The study was guided by the following general and specific objectives;

#### **1.3.2 General Objective**

The main objective of the study was to establish the moderating role of government facilitation on the relationship between extrinsic factors and tax compliance among SMEs in Kisumu.

#### **1.3.2 Specific Objectives**

- i. To establish the moderating effect of government facilitation between social norms and tax compliance among Small and Medium Enterprises in Kisumu County, Kenya
- ii. To determine the moderating role of government facilitation between culture and tax compliance among Small and Medium Enterprises in Kisumu County, Kenya
- iii. To assess the moderating effect of government facilitation on tax morale and tax compliance among Small and Medium Enterprises in Kisumu County, Kenya
- iv. To find out the moderating effect of government facilitation in the relationship between extrinsic factors and tax compliance among Small and Medium Enterprises in Kisumu County, Kenya.

#### **1.4 Research Hypotheses**

- H<sub>01</sub>:** Government facilitation has no significant relationship between Social norms and tax compliance among Small and Medium Enterprises in Kisumu County, Kenya
- H<sub>02</sub>:** Government facilitation has no significant relationship between moderating effect on the relationship between Culture and tax compliance among Small and Medium Enterprises in Kisumu County, Kenya
- H<sub>03</sub>:** Government facilitation has no significant relationship between Tax morale and tax compliance among Small and Medium Enterprises in Kisumu County, Kenya
- H<sub>04</sub>:** Government facilitation has no significant relationship between extrinsic factors and tax compliance among Small and Medium Enterprises in Kisumu County, Kenya.

#### **1.5 Limitations of the Study**

During data collection in the field, the study foresaw that respondents would be busy with their daily activities and operations. This was a challenge because the study was not able to gather data from respondents in single day. To overcome this challenge, the study used drop and pick latter method in distribution of questionnaires. When collecting data from the field, it was assumed that respondents might have fear and thus not able to willingly give the required information. To mitigate against this challenge, the study sought for a Consent letter from the Moi University. This Consent letter stated the purpose of the study as being for academic reason.

## **1.6 Significance and Scope of the Study**

### **1.6.1 KRA management team**

The findings of the study might be important to the management team of the KRA, the management team of the SMEs, future scholars and other researchers. To KRA, the study might recommend that best way of enhancing tax compliance among SMEs hence the possibility of attaining the projected revenue collection targets in the financial years.

### **1.6.2 The SMEs**

The management of SMEs might rely on the findings of the study to understand the need for tax compliance and its importance towards the growth of the economy. This is likely to increase compliance behavior hence an increase in the growth of the economy.

### **1.6.3 The future researcher**

The study might add to the existing literature on government facilitation in the relationship between extrinsic factors and tax compliance. This may be important to future scholars and academicians carrying out similar studies as literature review will be enhanced.

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

The study was conducted among the Small and Medium Enterprises (SMEs) and covered SMEs in Kisumu County. The study was carried out in the month of September, 2019. Respondents of the study were senior managers/owners of SMEs in Kisumu County.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews literature on government facilitation, extrinsic factors and tax compliance. In addition to the literature, the theories providing anchorage to the study are also reviewed. The conceptual framework showing the relationship between the study variables is also indicated.

#### **2.2 Theories Supporting the Study**

The study was informed by the tax morale theory, the theory of planned behavior as well as the theory of crime. The theories are discussed in detail in subsequent sections.

##### **2.2.1 The Tax Morale Theory**

Tax morale is an individual factor motivating people to comply with the tax obligation. This theory offers an explanation of why and how the morality of the tax payers shapes the tax behavior (Williams & Horodnic, 2016). Literature suggests that tax evasion is strongly linked to tax morale of the tax payers. Most tax payers would definitely be inclined more towards evasion of tax whenever they society they reside in disapprove of tax evasion (Lisi, 2015). On the other hand, tax payers would be more compliant with tax whenever they believe the relatives and friends strongly comply with tax obligations. At the same time, more tax payers would be tempted to evade tax whenever they feel that other people are non-compliant without being caught. More specifically, whenever the community tolerates tax evasion, this would be encouraged among the tax payers (Feld & Frey, 2018).

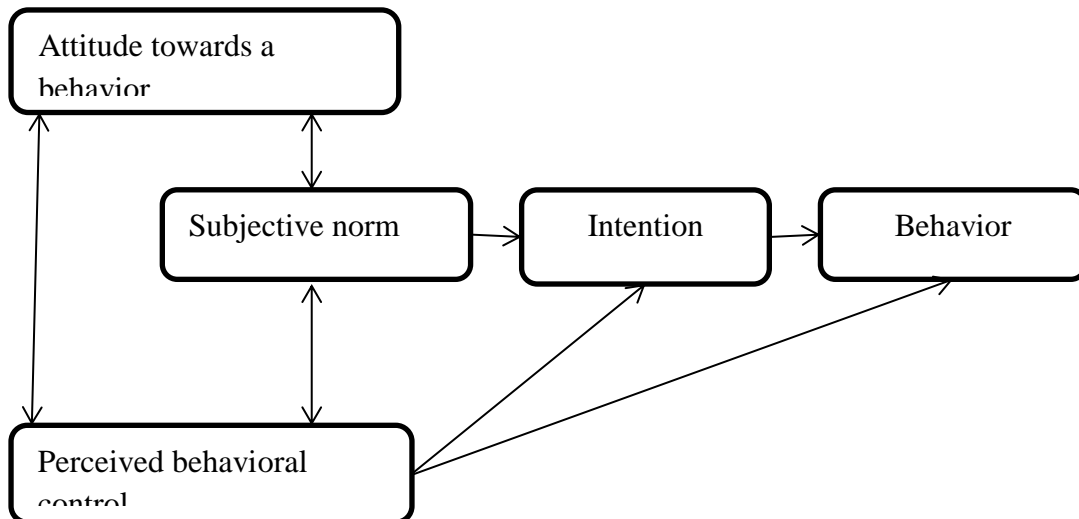
Morality of the tax payers can be influenced and shaped by their religious beliefs. Tax payers with strong religious beliefs or commitment are deemed to be highly compliant

with tax even if the tax rate is seen to be so high (Castro & Scartascini, 2015). On the other hand, tax evasion can be justified on the ground that the quantity and quality of public goods and services are not of good quality. On the contrary, a country where there is high quality of public goods and services is characterized by high tax compliance. Tax compliance among the tax payers would be high whenever they are of the opinion that the government authority is participatory, honest as well as democratic (Horodnic, 2018). On this basis, the attitude of the tax payers plays an important role when it comes to tax compliance. Based on this, a positive relationship is predicted between tax morale and tax compliance of the SMEs.

### **2.2.2 Theory of Planned Behavior**

The theory of Planned Behavior was advanced by Ajzen (1991) that strives to explain human behavior in different contexts. The theory argues that there are definite factors that shape and determine how individuals behave in the community. The bases of these factors shaping behavior among people include the subjective norms as well as perceived behavior controls. The basis of this theory is the intention, which determines how a given behavior is performed. According to Ajzen (1991), the term intention refers to the degree of the efforts of an individual for performance a given action. The attitude that an individual has in respect to a given behavior and norms determines the intention. Subjective norms simply describe that views and opinions of other people who are critical for an individual performing an action and they are used as bases of reference. Attitude simply describes some evaluation that an individual who shall perform an action would make. On the other hand, perceived behavior control gives specification of the difficult level of performance of an action. Figure 2.1 illustrates the key elements of the theory.





**Figure 2.1: Theory of Planned Behavior**  
**Source: Ajzen (1991)**

The theory provides that the intentions of an individuals coupled with their perceived control on a given behavior form the basis of whether they will undertake a given behavior or not. The study seeks to have an analysis of different compliance behavior of tax payers.

### 2.2.3 Theory of Crime

This theory was formulated by Becker (1968) and it argues that individuals are rational actors that behaving in a way that result into maximization of their expected utilities. According to Becker (1968), a balance should be maintained by authorities between tax non-compliance and the sanctions to a state where non-compliance is deemed as irrational. Allingham and Sandmo (1972) applied this theory of crime in the context of taxation by analyzing the decision of the tax payers no to comply with taxation during the filling of returns. An examination of the rate of penalties for evasion of taxes the probability of being detected as well as the extent of tax evasion engaged in was carried out. The key finding was that an increase in the rate of penalties as well as greater probability of being detected increase compliance among tax payers.

This spurred a debate on the role played by deterrence along in the effort to regulate compliance behavior in 1980s. The focus now shifted towards compliance as opposed to deterrence. The tax authorities also realized the need for cooperation and persuasion of tax payers in an effort to increase compliance. In essence, it has been widely acknowledged that instituting legal coercion as well as threats especially when seen as illegitimate can result into negative behavior outcomes. All these actions are likely to even increase non-compliance or creative non-compliance.

### **2.3 Dependent Variable Tax Compliance**

Globally, tax compliance among Small and Medium Enterprises (SMEs) is poor and a major problem as many countries fail to come up with ways to cut non-compliance. Small and Medium Enterprises (SMEs) are now the major employers and they play a very vital role in the development and growth of the Zimbabwean economy, but their contribution to the national budget is affected by tax non-compliance exercised by the operators. A study carried out by the Fin mark Trust revealed that Zimbabwe has 3.5 million Small to Medium Enterprises with only 2% of all these paying taxes to Zimbabwe Revenue Authority (ZIMRA; Masarirambi, 2013; CZI, 2015). A number of ways and strategies to cut tax evasion have been devised by ZIMRA as the government revenue collecting board to cut non-compliance among SMEs. SMEs is subjected to tax incentives as long as they are registered with ZIMRA, they are eligible to enjoy 100% Special Initial Allowance (SIA) on qualifying capital assets, which is allowed over a four-year period at the rate of 25% per year ([www.zimra.co.zw](http://www.zimra.co.zw)). The Special Initial Allowance is a capital allowance ranked as a deduction, which reduces the tax due from the business since it has the benefit of reducing the taxable amount. The incentive enables re-investment which empowers growth through more of its earnings that have been retained for business.

Workshops are conducted by ZIMRA on tax education. Are these methods conducted by ZIMRA real incentives for tax compliance? ZIMRA introduced a penalty of 100% of the amount due plus 10% interest per year to taxpayers who fail to file their tax returns in the stipulated time (Tapera, 2013). Heavy penalties have been charged with the authority to SMEs which fail to comply with the regulations on tax remittances. ZIMRA seem to be applying both persuasion and coercion strategies for tax compliance, relying more heavily on the semi-military operations which give results in the short run, but proving to be difficult to sustain in the prevention of tax evasion. The SMEs contributes a small amount of tax as compared to larger companies; they still need to be carefully considered due to the contribution they bring to the economic growth. The question then is why do other SMEs comply whilst the majority is not remitted their taxes? What are the major determinants of the failure to comply with the regulations of the tax authority?

The government uses tax revenue as the major source for capital and infrastructural development projects that will be of benefit even to the SMEs. The findings and recommendations of the study will help ZIMRA in the formulation of policies on collection of taxes among SMEs. Tax revenue contributes more than 60% of the national budget (Ministry of Finance 2013 and 2014). Reducing non-tax compliance among SMEs will fabricate an environment that eases the running of their businesses in the long run through infrastructural Globally, tax compliance among Small and Medium Enterprises (SMEs) is poor and a major problem as many countries fail to come up with ways to cut non-compliance. Small and Medium Enterprises (SMEs) are now the major employers and they play a very vital role in the development and growth of the Zimbabwean economy, but their contribution to the national budget is affected by tax non-compliance exercised by the operators. A study carried

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Around the world, tax compliance especially among the SMEs is poor and a key problem since most countries have failed to come up with the best ways of cutting on non-compliance (Holzinger & Biddle, 2016). Tax compliance refers to willingness of the tax payers to accurately declare or report all the taxable incomes, timely file tax returns and abide by all the established rules and regulations of taxation in the country. According to Hofmann, Voracek, Bock and Kirchler (2017), tax compliance is the behavior of the tax payer to voluntarily report incomes without the interventions from law enforcement agencies.

Low compliance means an increase in non-compliance behavior among the tax payers. Noncompliance is a negative action from tax payers and it can either be voluntary or non-voluntary (Çevik, 2016). Voluntary noncompliance failure of the tax payers to report the tax through the shadow economies and the use of incorrect tax returns. Unintentional tax noncompliance may be attributed by inability of the tax payers to understand the tax systems regulations either due to complexities or low tax knowledge (Faizal & Palil, 2015).

Antwi, Inusah and Hamza (2015) identified four types of compliance; committed compliance, capitulative compliance, noncompliance as well as creative compliance.



Committed compliance is where tax payers would obey tax laws without complaints in as much as they feel forced to do it. Capitulative compliance is where the firm would report the tax return with ways that are inappropriate for instance reducing the expenses. In noncompliance, the firm will get access to the services of the lawyer from the legal side that helps in interpretation of tax laws that would make it possible for manipulation. In creative compliance, the firm examines the weaknesses in tax laws through redefinition of their earnings as well as recalculation of their costs as they report their incomes (Kaplanoglou & Rapanos, 2015).

## **2.4 Independent Variables**

### **2.4.1 Social Norms and Tax Compliance**

Social norms shape how tax payers behave when it comes to compliance with tax in the country. According to Alm, Bernasconi, Laury, Lee and Wallace (2017), compliance behavior among tax payers may be shaped and determined by the individual reference groups like friends, neighbors or even relatives. Thus, if a tax payer is aware of most people in the reference group who are evaders of tax, compliance would be significantly reduced. The concern of the social duty or the personal responsibility of some tax payers has been linked to compliance behavior. For instance, some people pay taxes because they believe it is the right thing to do so whether there are sanctions and penalties or not.

According to Dulleck, Fooker, Newton, Ristl, Schaffner and Torgler (2016), the critical role of social norms is that they are informal rules that determine the acceptable attitudes and those that are not acceptable in the society. According to Strielkowski and Čábelková (2015), social norms refer to behavioral regularity shaped on the basis of shared values and beliefs and they determine the attitudes of tax payers. Social norms

influence how people behave based on how they identify or categorize themselves within the society or group. This in turn determines the attitude of the tax payers towards tax compliance. There are four classes of social norms; descriptive, injunctive, subjective and personal norms. All these types of norms have different influences on tax compliance behavior of the tax payers.

Descriptive norms are developed by observing how other people behave within given circumstances. In essence, observing how other people behave helps in making informed decisions. These norms provide information on the appropriate type of norm and the most critical behavior in any given circumstance. In the context of tax, people will highly comply with tax when they believe there is limited tax evasion and that most tax payers comply. A study conducted in England revealed that descriptive norms have strong influence on tax compliance behavior (Luttmer & Singhal, 2014).

Injunctive norms refer to perceptions of the attitudes which majority of people in the society may either approve or disapprove of. It refers to what is required to be conducted and compliance with these norms emanate from the need to establish as well as maintain social relationship. A positive link is predicted between injunctive norms and tax compliance among the tax payers.

Subjective norms are reflections of peoples' perceptions reflect an individual's perception of whether his/her specific behavior is to be approved or not by the people important to him/her. These norms have a strong influence on how people behave in given circumstances (Sinnasamy et al., 2015). Tax payers will decide on whether to comply or evade with tax on the basis of whether their close individuals will approve or disapprove this (Jimenez, 2013).

Personal norms refer to the ethical and moral standards of an individual shaping his/her behavior. It refers to beliefs and value system of individual as to what is right and wrong. Personal norms are developed after internalization of the other three types of norms. For instance, when the personal norms of individuals are in line with existing laws of taxation, such individuals would voluntarily comply with taxes (Pántya et al., 2016).

Çevik and Yeniçeri (2013) conducted a study to determine the link between social norms and tax compliance. This study was conducted in Turkey and a total of 400 respondents were sampled and included in the study. Data was gathered with the help of questionnaires. The response rate was 80.3%. The findings indicated that social norms have significant influence on tax compliance. Mutatembwa (2013) sought to determine the influence of social norms on tax compliance using a case of Tanzania. More specifically, the study focused on SMEs operating in Tanzania. The study used descriptive as well as correlation analysis. A total of 108 SMEs were covered classified as service providers, manufacturers, wholesalers as well as retailers. The study established that social norms have direct and significant influence on tax compliance.

Bobek, Hageman and Kelliher (2013) analyzed the role played by social norms in enhancing tax compliance behavior. The study involved testing of hypotheses and therefore correlation design was adopted. A total of 174 respondents were sampled and included in the study forming the study sample. The findings indicated that standard at individual levels (personal norms) and the expectations of these the close people (subjective norms) have positive influence on the decision to comply with taxes. On the other hand, the general expectations of the society (injunctive norms) as well as individuals' actual behavior (descriptive norms) have indirect influence in tax

compliance behavior among tax payers. This indicates that social norms have direct influence on compliance behavior of the tax payers.

#### **2.4.2 Culture and Tax Compliance**

Guerra and Harrington (2017) conducted a study on culture and how it influences tax compliance. The study adopted experimental design with a focus on Denmark and Italy. Methodologically, the study innovated by being the first to examine tax compliance in Denmark, and by testing the effects of an extended vector of covariates on both the intensive and extensive margins of tax behavior. The study established that individual evasion choices are strongly affected by risk aversion and individual perception about others' compliance behavior. Brink and Porcano (2016) looked at the impact of culture and economic structure on tax morale and tax evasion. The study established that policy makers should take note of this study when developing strategies to mitigate tax evasive behavior. Specific country characteristics, such as culture and economic structure, will impact how individuals respond to policy (e.g., new laws or penalties).

Salehi, Parvizifard and Ostovar (2014) did a study on cultural factors and their influence on compliance using a case of Iran. Data was gathered using questionnaires using a sample of 34 respondents. Culture was measured in terms of tax payer's honesty and a sense of responsibility and willingness to pay taxes. The study established a positive relationship between culture and tax compliance. Ho, Ho and Young (2013) analyzed the role played by culture on tax compliance using a case of China. It was established that tax has increasingly become a more important part of China's economic strategy, and yet the issue of tax compliance has long been neglected because there is some level of complacency.

Hamid (2012) analyzed the influence of culture on tax compliance using a case of New Zealand. The study was guided by the theory of planned behavior and responses were gathered from 119 tax professionals who are members of the New Zealand Institute of Chartered Accountants through web-based online survey. The data was analyzed using the partial least squares (PLS), a structural equation modeling approach. The findings suggest that attitudes towards tax compliance, subjective norms, perceived behavioral control, masculinity and uncertainty avoidance significantly influence the intention to comply with the tax law.

### **2.4.3 Tax Morale and Tax Compliance**

Tax morale is the level of motivation among the tax payers to pay taxes. According to Casal et al. (2016), tax morale can primarily be viewed as the association between formal as well as informal institutions. People with strong tax morale will voluntarily be motivated to comply with tax payment even without sanctions. The nature of interaction between tax administrators and the tax payers determine the perceptions that influence how people behave with regard to taxes. For instance, when tax payers perceive the tax administration as being controlling, this may bring distrust among the tax payers. When tax payers feel distrusted, the same attitude may be adopted to tax authority's hence low compliance (Blaufus et al., 2017).

Netshaulu (2016) sought to determine the influence of tax morale on tax compliance using a case of mining industry in South Africa. The study adopted survey design forcing on tax payers in the mining industry. Both close as well as open ended questions were included in the survey and they were distributed to respondents by email. The finding showed that corruption as well as waste in the government and the fact that a large share of the collected revenues is wasted to other expenses. It was also established that the insufficient information is shared by the government on how the taxes collected

is used. It was revealed that complexities in tax laws and regulations, trust in government as well as tax audit all have an effect on tax morale. Bilgin (2014) studied the determinants of tax morale in the context of Spain as well as Turkey. The study variables included social capital, economic, demographic and employment status of the respondents. It was shown that these factors determine tax attitude which influence the tax compliance behavior of the tax payers.

Alasfour, Samy and Bampton (2016) analyzed the determinants of tax morale as well as compliance using data from Jordan. The study adopted survey design and data was gathered with the use of questionnaires. The study established that tax morale may have a positive or negative effect on tax compliance among the tax payers. Furthermore, individual factors have an influence on tax morale among tax payers which ultimately determine tax compliance. Horodnic (2018) systematically reviewed the factors shaping tax morale. This was an empirical study where systematic search was conducted in the effort to access 400 data bases. It was shown that tax morale positive influence tax compliance.

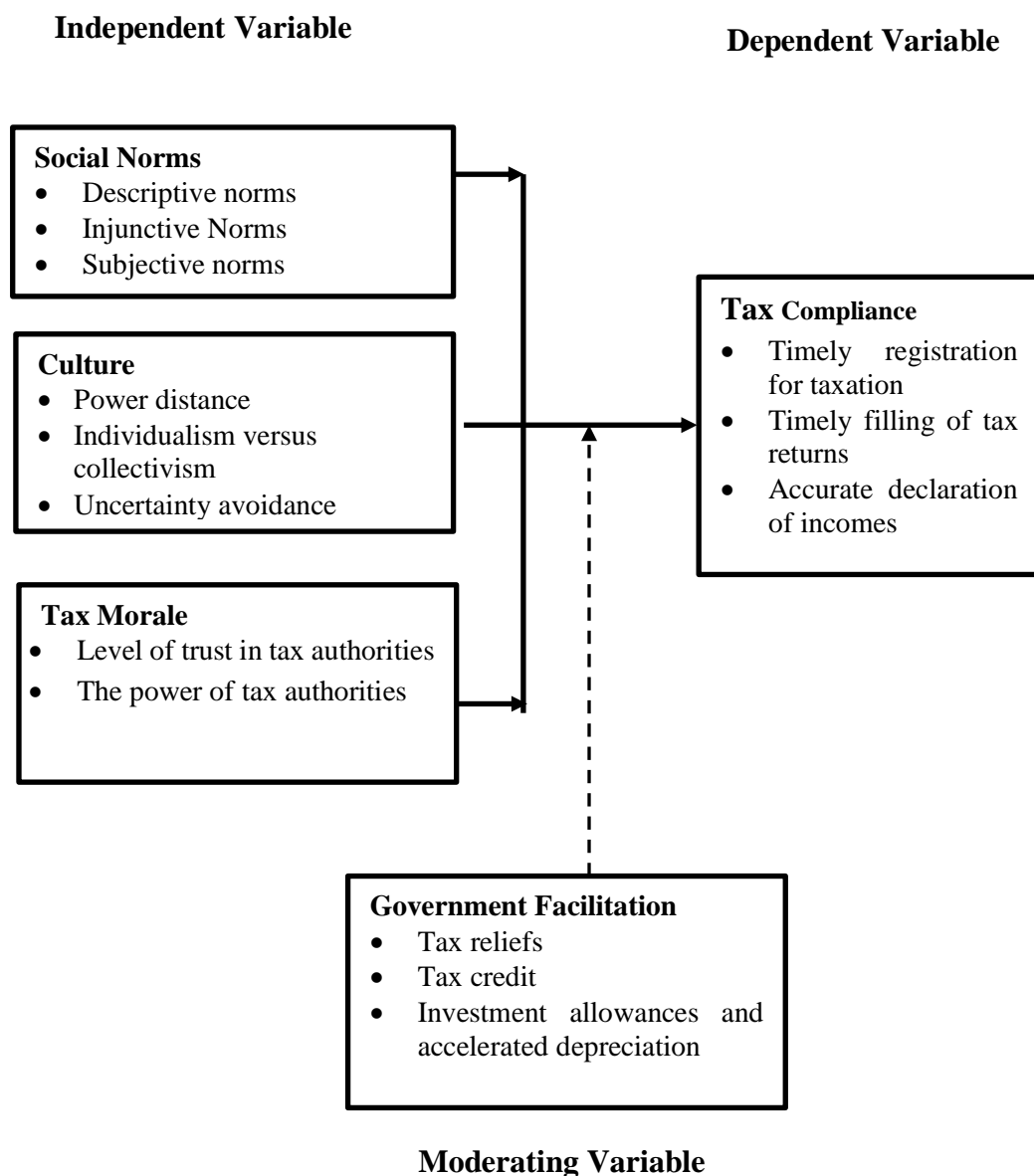
### **2.5 Moderating Government Facilitation, Extrinsic Factors and Tax Compliance**

Government facilitation implies that the private actors have the initiative of producing public goods or services with the support of the government. This calls for formulation of sound policies and regulations that support the private sector. Jayewardene (2015) studied the influence of extrinsic factors on tax compliance behavior. The study variables included social norms, fairness and equity, tax morale as well as tax compliance. A descriptive design was employed and data was collected using questionnaires. The findings of the study indicated that extrinsic factors have an influence on tax compliance. The study established that the attitudes held by the tax payers determine their compliance with taxes. Tax compliance especially among the

SMEs is a major issue around the world. In Zimbabwe for instance, there are 3.5 million SMEs out of which only 2% are tax compliant (Masarirambi, 2013).

## 2.6 Conceptual Framework

The conceptual framework of the study showing the variables is represented by Figure 2.1 below.



**Figure 2.2: Conceptual Framework for the Study**

**Source: Author (2019)**

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter discusses the methods that were used in answering the research hypotheses. The chapter discusses the study area, research design, target population as well as sample size. The methods of collection and analysis of data are also discussed in this chapter.

#### **3.2 Research Design**

Research design according to Astalin (2013) is a detailed arrangement and analysis of data to concur with the study object. An exploratory design was adopted where quantitative data was collected and since the study aimed at examining the moderating role of government facilitation on the relationship between extrinsic factors and tax compliance. The design was important in determining how extrinsic factors determine tax compliance among SMEs. According to Yin (2015), an explanatory design is useful in a study that looks at an issue for the first time. Therefore the design was sufficient in data collection, classification, analysis and interpretation.

#### **3.3 Target Population**

Target population is defined as the collection of subject that will be used in data analysis (Creswell & Creswell, 2017). The study targeted senior managers/owners of 3,162 SMEs operating in Kisumu County. These SMEs were classified as manufacturers, wholesalers as well as retailers and others as shown in Table 3.1.



**Table 3.1: Target Population**

<b>Department</b>	<b>Population</b>
Manufacturers	820
Wholesalers	810
Retailers	790
Service Providers	742
<b>Total</b>	<b>3162</b>

### **3.4 Sample**

To sample is to select representative elements from the population for inclusion in the study. Sampling is important because it ensures that manageable size of respondents is included in the study. The sample of this study was owners of the SMEs who were selected from the target population of 3162 SMEs.

### **3.5 Sample Size**

Sample size is a small section of subjects drawn from the larger population (Yin, 2012). Sample size is determined from the target population and it represents the number of respondents that are to be used in the study. The sample size for this study was 342 respondents.

### **3.6 Sampling Method**

The study use mixed sampling method with the procedure that was applied being a Multi-Stage Sampling procedure. First, the respondents of the study were stratified into their respective departments as manufacturers, whole sellers, retailers as well as service providers. The second stage was purposive sampling which was useful in reaching the targeted Economic sectors and the third stage was simple random sampling. The sample size was determined by the following formula provided by Kothari (2004);

$$n = \frac{z^2 \times N \times \partial\rho^2}{(N - 1)e^2 + Z^2\partial\rho^2}$$

$$n = \frac{1.96^2 \times 3162 \times 0.5^2}{(3162 - 1)0.05^2 + 1.96^2 \times 0.5^2}$$

$$n = \frac{3036.7848}{7.9025 + 0.9604}$$

$$n = 342 \text{ respondents}$$

Where; n=Size of the sample

N=Size of the population and given as 3162

e= Acceptable error given as 0.05

$\partial^2\hat{p}$ = the standard deviation of the population and given as 0.5 where not known

Z= standard variation at a confidence level given as 1.96 at 95% confidence level.

The sample size was therefore 342 owners of registered SMEs in Kisumu County

Once the sample size had been determined, random sampling was used to select respondents from each stratum. The selection of the respondents is as shown in Table 3.2.

**Table 3.2: Sample Size**

Department	Population	Sample Proportion (%)	Sample Size
Manufacturers	820	820/3162*100=26%	.26*342=89
Wholesalers	810	810/3162*100= 26%	.26*342=88
Retailers	790	790/3162*100=25%	.25*342=85
Service Providers	742	742/3162*100=23%	.23*342=80
<b>Total</b>	<b>3162</b>		<b>342</b>

### 3.7 Data Collection Instrument

The study collected primary data. Yin (2015) considers primary data as the first hand source of information that can be collected by use of questionnaires, interviews or observation methods. Primary data was used in the study with the help of the

questionnaires. The study preferred the use of primary data because it represents the first hand source of information that is free from biasness. Questionnaires were used as they collected uniform data from all the respondents and the questionnaires could be easily interpreted by the respondents and also easy to conduct analysis. Furthermore, the questionnaires are a cheap way of collecting data from respondents and the questionnaires provide an easy way of coding and were used in gathering quantitative data (Johnson & Turner, 2003). Questionnaires were structured on a five-point Likert scale. The questionnaires were divided into sections guided by the specific objectives of the study. Section A covered information on demography, section B had the information on the dependent variable tax compliance, section C was independent variable social norms, section D had the independent variable culture, and section E had information on independent variable tax morale while section F had information on the moderating variable government facilitation.

### **3.8 Piloting of Data Collection Instrument**

The study selected 10 SMEs in Eldoret town for carrying out the pilot test. Respondents who took part in the pilot study were not included in the final study. Pilot test was done to eliminate biasness in the framing of research questions and data instruments. It also identified the flaws and limitation of the design instrument that hinders the researcher from getting the right answer to research questions. Pilot also enables the researcher to change the instrument accordingly to be in line with study objectives. Yin (2013) that a sample size should be at least 10% of the respondent to ascertain liability of the research question. Reliability tests was also carried out to enhance it more.

#### **3.8.1 Validity of the Research Instruments**

Validity refers to the extent which the instruments measure what they are designed to indicate. Questionnaire was given to the project coordinator to ascertain the validity of

the designed research instruments. The supervisor was also given set of questionnaire to verify the same. At the end of this process, those questions found to be invalid were removed from the questionnaire. The supervisor ensured content validity by assessing how questionnaires have been arranged based on each objective. Face validity was determined on the basis of how the items on the questionnaire are arranged. Construct validity was determined by the theories that are inform the study.

### **3.8.2 Reliability of the Research Instruments**

Reliability is the degree of consistency in the instruments of the study. Cronbach's alpha ( $\alpha$ ) was used to measure the internal research reliability. To determine the reliability of research instrument, the co-efficient value should be above 0.7. After verification, the researcher picked the final data analysis (Neuman, 2013).

### **3.9 Data Collection Procedure**

The study sought for an introduction letter from the University which stated the purpose of the study as being for academic reason. The identified SMEs were notified in advance in written on the study. An authorization letter from the National Commission for Science, Technology and Innovation (NACOSTI) was also sought for the purpose of collecting data in the field from respondents. The researcher administered questionnaires in self to increase on the response rate.

### **3.10 Data Screening, Coding and Analysis**

The analysis began by coding data into the Statistical Package for Social Sciences. Descriptive statistics were computed whereby frequencies, percentages, means and standard deviations were clearly shown in form of both tables and figures. A regression model was used to determine the interaction between extrinsic factors, government facilitation and tax compliance.

The following steps were followed in testing for moderation of government facilitation;

### **3.10.1 Multiple Regression Model for Testing for the Relationship between Independent and Dependent Variables**

When using the regression model, Y is the dependent variable while X is the independent variable. Since there are three objectives in this study, the multiple linear regression model was expressed as:

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

Where:

Y= Tax compliance

X<sub>1</sub>= Social Norms

X<sub>2</sub>= Culture

X<sub>3</sub>= Tax Morale

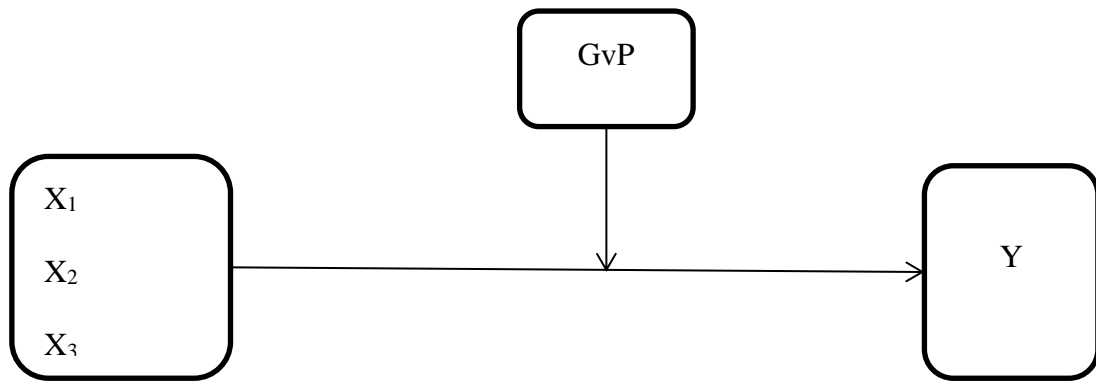
$\beta_0$  = The constant (intercept) which is the value of dependent valuable when all the independent variables are zero.

$\beta_0 + \beta_1, \beta_2,$  and  $\beta_3$  = regression constants/coefficients induced by X<sub>1</sub> X<sub>2</sub> and X<sub>3</sub> on Y

e = the error term.

### **3.10.2 Regression Model for Testing for Moderation**

The test for moderation used a three-stage approach recommended by Fairchild and McKinnon (2009). Figure 3.1 below represents the regression model for testing for moderation and it was employed to test the fourth objective (to establish the moderating effect of government facilitation on the effect of extrinsic factors on tax compliance among SMEs).



**Figure 3.1: Model for Moderation Relationship**  
**Source: Researcher (2019)**

Where:

Y= Tax compliance

X<sub>1</sub>= Social Norms

X<sub>2</sub> = Culture

X<sub>3</sub> = Tax Morale

GvF= Government Facilitation

Stage one: Model 3.2 was used to determine the relationship between the independent variable (extrinsic factors) and dependent variable (tax compliance).

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon \dots \dots \dots (3.2)$$

Stage two: Model 3.3 was used to approximate the relationship between dependent variable (tax compliance) and moderating variable (government facilitation).

$$Y = \beta_0 + \beta_1 EPF + \beta_2 GvF + \epsilon \dots \dots \dots (3.3)$$

Where:

EPF= Extrinsic Factors

GvF= Government Facilitation

Stage three: Model 3.4 was applied to estimate the relationship between the dependent variable (tax compliance) and independent variable (extrinsic factors) and the moderating variable (government facilitation).

$$Y = \beta_0 + \beta_1 PF + \beta_2 GvF + \beta_3 EPF * GvF + \epsilon \dots \dots \dots (3.4)$$

Where:

GvF \* EPF= Government facilitation× Extrinsic Factors

The decision criteria are as shown in table 3.3 below;

**Table 3.3: Moderation Decision Making Criteria**

<b>Outcome</b>		<b>Conclusion</b>
1	If $\beta_2$ is not significant in model 3.3	Explanatory variable
2	If $\beta_3$ is significant in model 3.4	Moderator variable

Source: Fairchild and McKinnon (2009).

### 3.10.3 Diagnostic Tests

Before carrying out regression analysis, the researcher conducted normality tests, multicollinearity test and heteroskedasticity tests. Normality test was done to ensure that the data set is normally distributed. It was carried out using normal PP plots. Multicollinearity test was done using Variance of Inflation Factor (VIF) while Scatter plots were used to determine the presence of heteroskedasticity. For autocorrelation, the study used Durbin Watson test to determine presence of serial correlation in the data set.

### 3.10.4 Factor Analysis

Factor analysis is a technique that is used to identify the most significant factors influencing a given behavior under investigation. It is used to model covariance that exists among some observed set of factors. There are two basic types of factor analysis: exploratory and confirmatory (Bandalos & Finney, 2018). In exploratory factor

analysis, all measured variables are related to every latent variable. But in confirmatory factor analysis (CFA), researchers can specify the number of factors required in the data and which measured variable is related to which latent variables. This study used confirmatory factor analysis to verify the identified factors. More specifically, communalities were interpreted to determine on factors that should be retained for further regression modeling.

### 3.11 Measurement of Variables

**Table 3.4: Measurement of Variables**

Variable	Nature of Variable	Indicator	Scale	Questions
Tax Compliance	Dependent	<ul style="list-style-type: none"> <li>• Timely registration for taxation</li> <li>• Timely filling of tax returns</li> <li>• Accurate declaration of incomes</li> </ul>	<ul style="list-style-type: none"> <li>• Ordinal scale</li> <li>• Nominal scale</li> </ul>	Question 6 & 7
Social Norms	Independent	<ul style="list-style-type: none"> <li>• Descriptive norms</li> <li>• Injunctive Norms</li> <li>• Subjective norms</li> <li>• Personal norms</li> </ul>	<ul style="list-style-type: none"> <li>• Ordinal scale</li> <li>• Nominal scale</li> </ul>	Question 8 & 9
Culture	Independent	<ul style="list-style-type: none"> <li>• Power distance</li> <li>• Individualism versus collectivism</li> <li>• Uncertainty avoidance</li> </ul>	<ul style="list-style-type: none"> <li>• Ordinal scale</li> </ul>	Questions 10
Tax Morale	Independent	<ul style="list-style-type: none"> <li>• Level of trust in tax authorities</li> <li>• The power of tax authorities</li> <li>• Degree of cooperation</li> </ul>	<ul style="list-style-type: none"> <li>• Ordinal scale</li> </ul>	Questions 11
Government Facilitation	Moderating variable	<ul style="list-style-type: none"> <li>• Tax reliefs</li> <li>• Tax credit</li> <li>• Investment allowances and accelerated depreciation</li> </ul>	<ul style="list-style-type: none"> <li>• Ordinal scale</li> </ul>	Question 12

### 3.12 Ethical Considerations

The researcher adhered to ethical standard of research work. The researcher submitted a formal letter seeking permission to carry out the research; this explained the purpose and objective of carrying out the research. The researcher sought the respondent consent



before research work begin which confirmed that the information was confidential and for education purpose only.

## CHAPTER FOUR

### RESEARCH FINDINGS AND DISCUSSIONS

#### 4.1 Introduction

This chapter presents the findings of the analysis from the primary data that was gathered in the field with the aid of questionnaires. The collected data was first cleaned and entered into SPSS tool in readiness for analysis. The analysis was systematically conducted with the aid of descriptive as well as regression analysis. The study tested for moderation with the aid of regression analysis in a systematic way. The presentation of the findings was done using tables as well as figures.

#### 4.2 Response Rate and Pilot Study Results

This section shall detail the results of the response rate as well as the pilot study findings.

##### 4.2.1 Response Rate

The study distributed 342 questionnaires to the respondents who comprised of owners/employees of SMEs operating in Kisumu County. From these questionnaires, 245 of them were completely filled and returned. This was equivalent to a response rate of 71.6% as illustrated in Table 4.1.

**Table 4.1: Response Rate**

	<b>Frequency</b>	<b>Percentage</b>
Response	245	71.6
Non Response	97	28.4
<b>Total</b>	<b>342</b>	<b>100.0</b>

The response rate in Table 4.1 is consistent with Mugenda and Mugenda (2003) who noted that response rates of over 70% are good for analysis and presentation of the results in a statistical inquiry.

### 4.2.2 Reliability Results

The instruments of the study were piloted and the resulted questionnaires were coded and used to compute the values of Cronbach Alpha Coefficients. The results of the computation are indicated in Table 4.2.

**Table 4.2: Reliability Results**

<b>Variable</b>	<b>Number of Items</b>	<b>Cronbach Alpha Coefficient(<math>\alpha</math>)</b>	<b>Remark</b>
Social Norms	4	0.876	$\alpha > 0.7$ hence reliable
Culture	6	0.789	$\alpha > 0.7$ hence reliable
Tax Morale	5	0.714	$\alpha > 0.7$ hence reliable
Government Facilitation	4	0.819	$\alpha > 0.7$ hence reliable
Tax Compliance	3	0.865	$\alpha > 0.7$ hence reliable

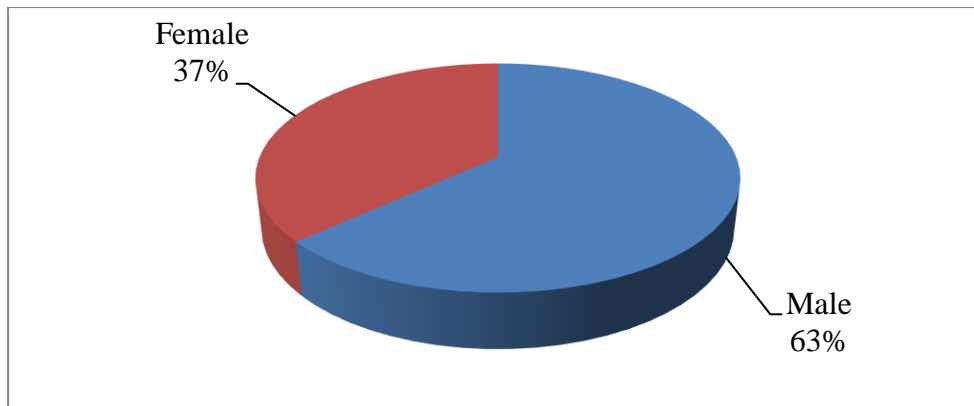
Thus, the results in Table 4.2 indicate that the scale used was reliable as all the variables had respective values of Cronbach Alpha above 0.7. This finding is in line with Neuman (2013) who indicated that to assert that the instrument in a study is reliable; the coefficient value should be above 0.7.

### 4.3 General Information

The study sought to gather the general information about the respondents as well as the studied firms. The results are presented in subsequent sections.

#### 4.3.1 General Information on Respondents

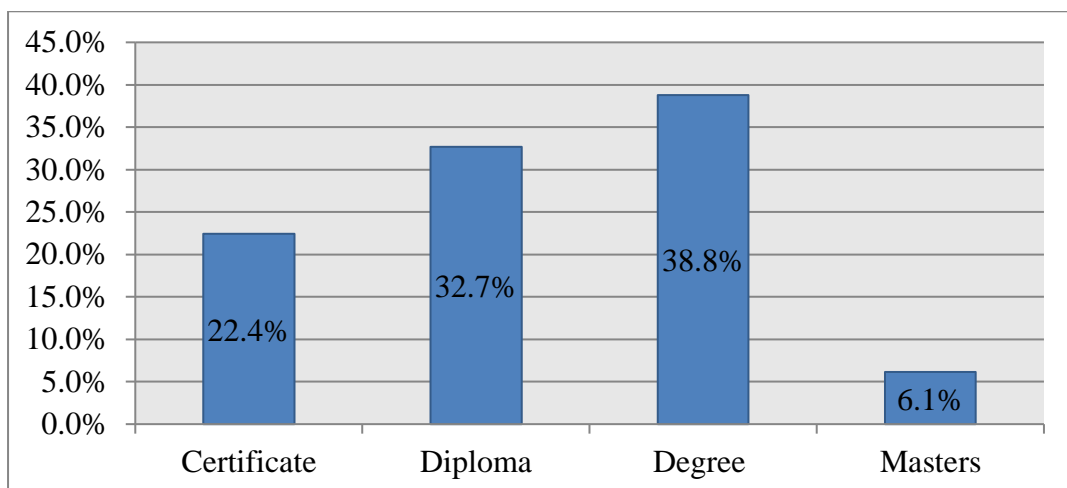
This section seeks to present the general information sought by the study about the respondents. This information includes the gender distribution as well as the highest level of education attained. Figure 4.1 gives a breakdown of the gender categorization of the respondents.



**Figure 4.1: Gender Distribution**

From the results in Figure 4.1, majority of the respondents (63%) were male while 37% were female. This means that the information sought from the respondents was representative since all the gender categories were involved. It also be inferred that there was diversity in the study as the views were collected from respondents of different gender categories.

The study further gathered information on the level of education of the respondents. This was important in determining whether respondents were suitable to take part in the study. The results are summarized in Figure 4.2.

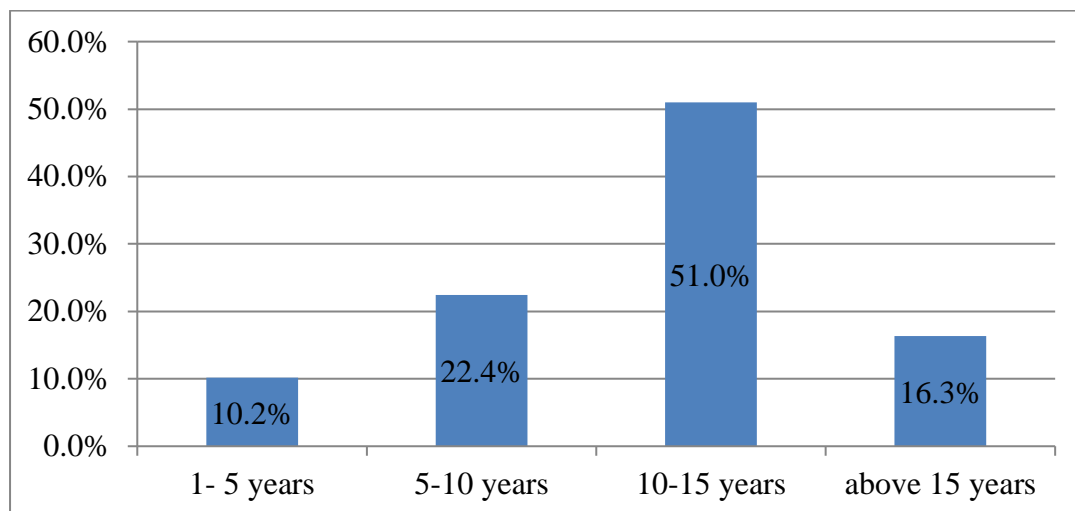


**Figure 4.2: Levels of Education**

From the results in Figure 4.2, majority of the respondents 38.8% had degrees, 32.7% had diplomas, and 22.4% had certificates while 6.1% had masters' degrees. This means that respondents who took part in the study were generally learnt and thus could read and interpret the research questions as sought by the study.

#### 4.3.2 General Information on the Firms

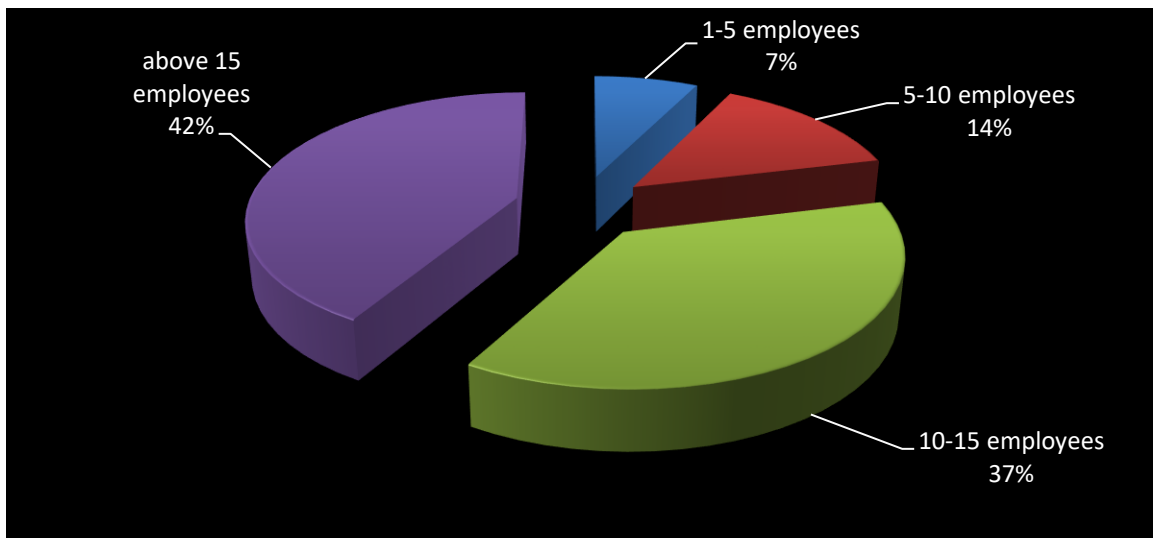
Apart from collecting information on the respondents, the study further sought to gather information on the firms that were covered. This information included the length that the firms had been in operations and the number of employees in each of the respective firms. The results on the number of years that the firms had been in existence are indicated in Figure 4.3.



**Figure 4.3: Years of Organizational Existence**

From the results in Figure 4.3, majority of the studied firms (51%) had been in operations for 10-15 years, 22.4% for 5-10 years, 16.3% for over 15 years and 10.2% for 1-5 years. This means that majority of the studied firms had operated for a long period of time and thus were suitable to be used in this study as the point of reference as extrinsic factors and their ability to comply with taxes was concerned.

The study gathered information regarding the number of employee in the respective firms that were studied. The results are as indicated in Figure 4.4.



**Figure 4.4: Employee Base**

As indicated in Figure 4.4, majority of the firms (42%) had over 15 employees, 37% had 10-15 employees, 14% had 5-10 employees and 7% had 1-5 employees. This means that the studied firms were of relatively large sizes and thus had various tax obligations hence the need to comply with these taxes.

#### **4.4 Descriptive Statistics**

The study formulated statements on each of the independent, moderating as well as dependent variables. These statements were structured on a five point Likert scale. The interpretation of this Likert scale was such that values  $M > 3.5$  indicate that respondents agreed. The results are presented in subsequent sections.

##### **4.4.1 Independent Variable Social Norms**

Respondents were asked to indicate whether social norms of employees influenced how their firm complied with taxes. From the results, all the respondents (100%) agreed that in deed, social norms affected the ability of their firm to comply with taxes.

Respondents were further provided with various statements on social norms. They were required to indicate the extent of their agreement with each of these statements formulated on five point Likert scale. The results of the means and standard deviations are shown in Table 4.3.

**Table 4.3: Rating of Social Norms**

<b>Statement</b>	<b>Mean</b>	<b>Std. Dev</b>
I know that the firm pays taxes because other similar SMEs are compliant	3.92	0.855
I believe the firm pays taxes because it is the right thing to do irrespective of existence of penalties for non-compliance	3.82	1.084
I believe the firm pays taxes because there is limited tax evasion among other SMEs	3.76	0.961
I know that the firm pays taxes in order to avoid injunctions	3.76	0.798
<b>Composite Score</b>	<b>3.82</b>	<b>0.925</b>

From the results in Table 4.3, the overall score (M=3.82) imply that generally, respondents agreed on social norms being one of the extrinsic factors that affected their ability to comply with taxes. The overall value of standard deviation (SD=0.925) is relatively low, an implication that respondents shared same views and opinions as far as social norms were concerned. Only one statements had a high value of standard deviation of above 1; implying that respondents had mixed views on whether their firm paid taxes because it was the right thing to do irrespective of existence of penalties for non-compliance. The social norms enabled the respondents to have knowledge on know that the firm paid taxes because other similar SMEs were compliant (M=3.92). Therefore, social norms were found to influence the ability of the studied firms to comply with taxes. This finding is in line with Bobek, Hageman and Kelliher (2013) who indicated social norms have direct influence on compliance behavior of the tax payers.

#### 4.4.2 Independent Variable Culture

The study sought to determine the influence of culture as an extrinsic factor on tax compliance. The results of the descriptive statistics are summarized in Table 4.4.

**Table 4.4: Independent Variable Culture**

<b>Statement</b>	<b>Mean</b>	<b>Std. Dev</b>
I consider tax compliance as a certain situation	3.97	0.849
I file tax returns in time to avoid risky behavior	3.62	1.020
We consider payment of taxes as our collective responsibility to the country	3.88	0.774
We collectively work to ensure that tax is paid on time	3.67	1.235
We take pride in timely filling of tax returns in the firm	3.98	1.038
I pay tax because my supervisor is also tax compliant	4.34	0.771
<b>Composite Score</b>	<b>3.91</b>	<b>0.948</b>

From the results in Table 4.4, the overall score ( $M=3.91$ ) shows that respondents agreed on culture as an extrinsic factor affecting tax compliance of their respective firms. The overall value of standard deviation ( $SD=0.948$ ) is less than 1; which implies that there was convergence in the views expressed by the respondents on culture and how it influences tax compliance of their firms. Most of the statements had low values of standard deviation which shows that there was no significant variation in the views that respondents had on culture as one of the extrinsic factors influencing tax compliance of their firm. Despite this convergence of the views of respondents, there was also mixed reactions among respondents on whether they filed file tax returns in time to avoid risky behavior ( $SD=1.020$ ), they collectively worked to ensure that tax is paid on time ( $SD=1.235$ ) or they took pride in timely filling of tax returns in the firm ( $SD=1.038$ ). Thus, it can be deduced that culture is one of the extrinsic factors that shape tax compliance behavior.



#### 4.4.3 Independent Variable Tax Morale

The study sought to determine the influence of tax morale on tax compliance. The results of the means and standard deviation as part of the descriptive statistics are shown in Table 4.5.

**Table 4.5: Independent Variable Tax Morale**

<b>Statement</b>	<b>Mean</b>	<b>Std. Dev</b>
There firm pays taxes because the tax administration is cooperative	4.08	0.806
The fact that the tax administration is not controlling motivates the firm to pay taxes	4.08	0.806
The firm pays tax because we trust the money is used wisely	3.88	0.984
I believe the existing tax laws are easy to understand	3.94	0.915
The firm pays taxes because I believe it is morally right to do so	3.67	1.079
<b>Composite Score</b>	<b>3.93</b>	<b>0.918</b>

From the results in Table 4.5, the overall score (M=3.93) can be interpreted to mean that respondents generally agreed on tax morale as one of the extrinsic factors influencing tax compliance in their respective firms. The statements are further supported by low values of standard deviation, the overall value standing at (SD=0.918); which means that there was no significant variations in the views expressed by respondents on tax morale as a factor that informed their tax compliance. Respondents highly reacted on whether their firm paid taxes because they believe it was morally right to do so (SD=1.079) while all other statements had low values of standard deviations. The findings therefore indicate that tax morale has an influence on tax compliance. This is in line with Hamid (2012) who noted that attitudes towards tax compliance, subjective norms, perceived behavioral control, masculinity and uncertainty avoidance significantly influence the intention to comply with the tax law. Casal et al. (2016) argues that people with strong tax morale will voluntarily be motivated to comply with tax payment even without sanctions.

#### 4.4.4 Moderating Government Facilitation

Aside from the dependent variable, the study also had the moderating variable which was government facilitation. The results of the means and standard deviations on government facilitation as a moderating variable are as shown in Table 4.6.

**Table 4.6: Moderating Government Facilitation**

<b>Statement</b>	<b>Mean</b>	<b>Std. Dev</b>
The tax reliefs motivates the firm to pay taxes	4.08	1.049
The firm pays taxes on time to get tax credit	3.98	1.022
The firm accurately records all the incomes on tax returns to get investment allowances	3.92	0.855
The firm files tax return on time to get accelerated depreciation	3.82	1.084
<b>Composite Score</b>	<b>3.95</b>	<b>1.003</b>

The results in Table 4.6 indicate that on overall (M=3.95), respondents agreed on the various statements of government facilitation. Respondents highly agreed (M=4.08) that tax relief motivated the firm to pay taxes. Furthermore, tax credits (M=3.98), investment allowances (M=3.92) and the need to get accelerated depreciation (M=3.82) all motivated the firms to comply with taxes. The overall standard deviation (SD=1.003) is relatively high indicating that there was mixed reaction among respondents on the various statements provided under government facilitation.

#### 4.4.5 Dependent Tax Compliance

The dependent variable of the study was tax compliance. In this respect, respondents were asked to indicate whether their firm remits all the taxes deducted (PAYE, VAT and Withholding taxes) to the Kenya Revenue Authority (KRA) in time. The results indicated that all respondents (100%) agreed that their firm remitted the deducted tax in time. It can therefore be inferred that the studied firms were tax compliant.

The study formulated a number of statements on tax compliance using a five point Likert scale. The results of the means and standard deviations as used in interpreting this Likert scale are indicated in Table 4.7.

**Table 4.7: Dependent Tax Compliance**

<b>Statement</b>	<b>Mean</b>	<b>Std. Dev</b>
New employees with tax PIN certificate are timely registered for taxation in the SME	3.90	0.933
Tax returns are timely filed in the firm	4.14	0.640
All incomes are accurately declared on the tax returns in the firm	3.18	1.157
<b>Composite Score</b>	<b>3.74</b>	<b>0.910</b>

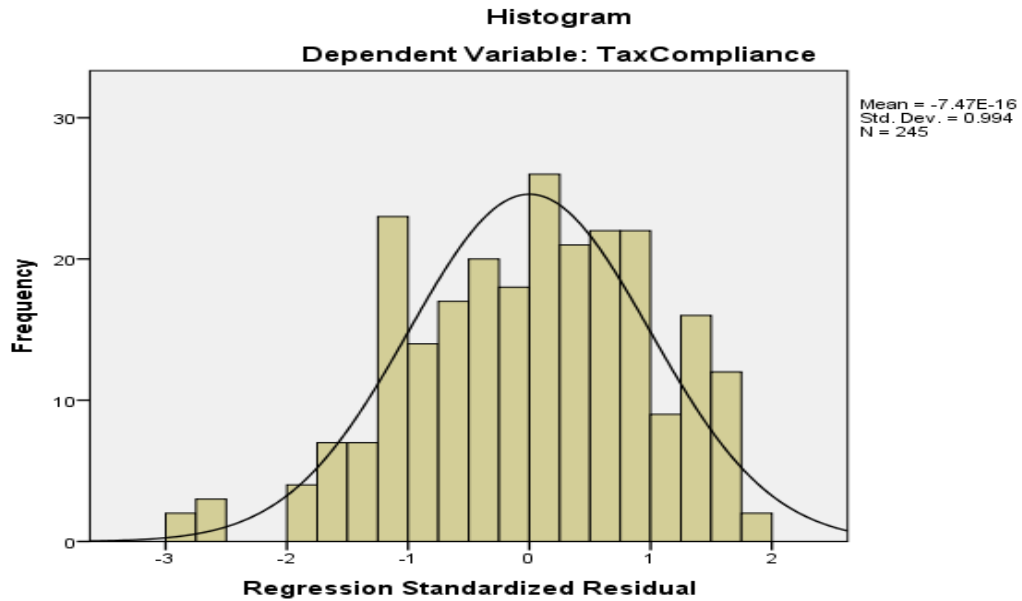
The results in Table 4.7 indicate an overall score (M=3.74); which shows that respondents agreed on the statements of tax compliance. This shows that the studied firms were generally tax compliant.

#### **4.5 Diagnostic Tests**

The study conducted diagnostic tests to ensure that the data set was in line with the assumption of regression analysis. Specifically, the study conducted normality tests, autocorrelation test, multicollinearity test and heteroskedasticity tests.

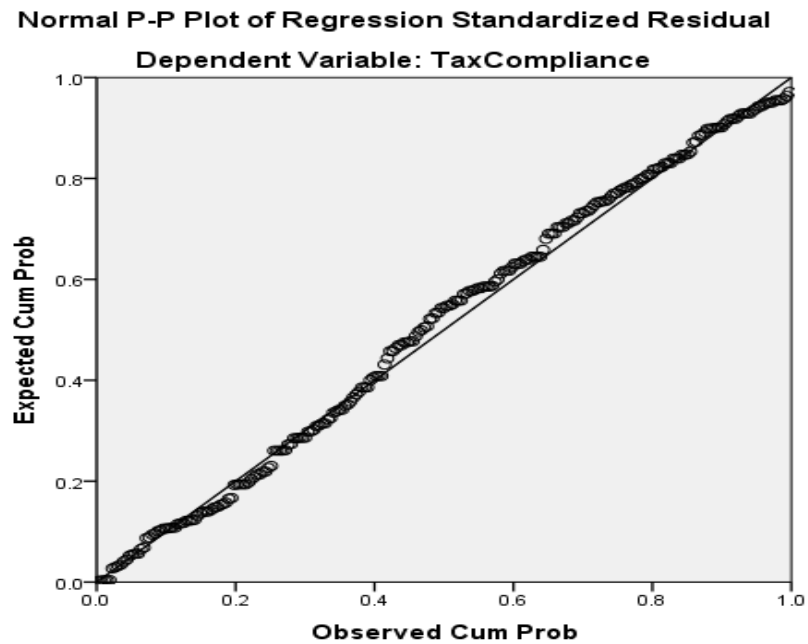
##### **4.5.1 Normality Test**

Normality test was done to ensure that the data set is normally distributed. It was carried out using normal PP plots. The results are indicated in Figure 4.5 and Figure 4.6.



**Figure 4.5: Histogram**

From Figure 4.5, it is clear that the data set was normally distributed. The findings in Figure 4.5 are further illustrated by the Normal PP Plot in Figure 4.6.



**Figure 4. 6: Normal PP Plot**

From Figure 4.6, most of data points are seen to fall along the normal PP Plot. This shows that the data set was normally distributed and thus suitable for use in the study.

#### 4.5.2 Multicollinearity Test

Multicollinearity test was done using Variance of Inflation Factor (VIF). The results are indicated in Table 4.8.

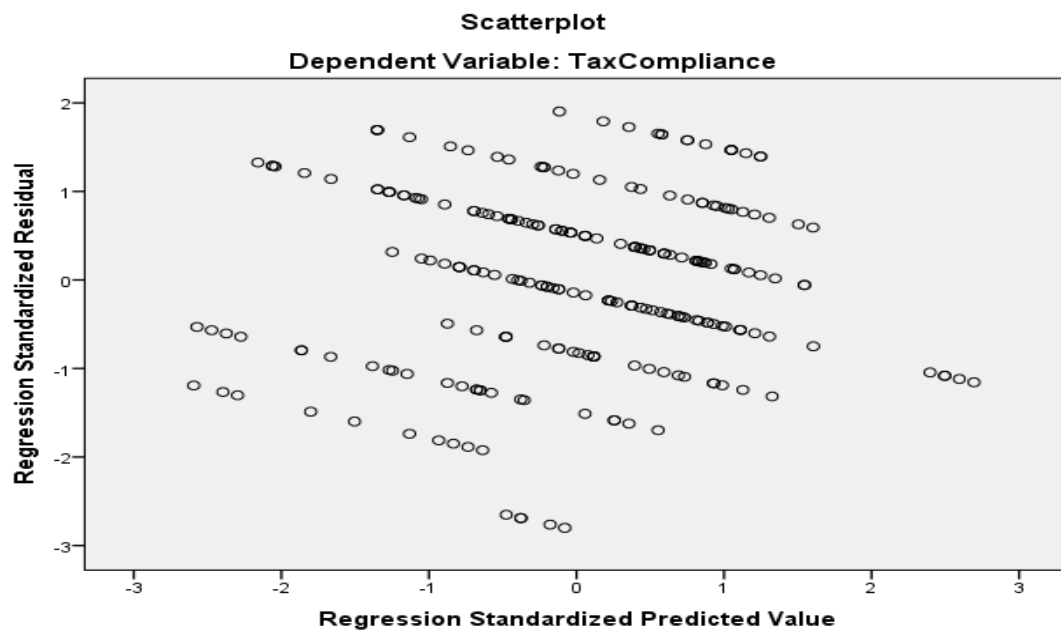
**Table 4.8: Multicollinearity Test**

	Collinearity Statistics	
	Tolerance	VIF
Social Norms	.403	2.481
Culture	.850	1.176
Tax Morale	.412	2.425

The results in Table 4.8 indicate the values of VIF; which are all then than 3. The rule of thumb is usually that VIF values within the range of 1-10 show absence of multicollinearity. Thus, it can be inferred that multicollinearity was not a problem in the data set.

#### 4.5.3 Heteroskedasticity Test

Scatter plots were used to determine the presence of heteroskedasticity. The results of the analysis are indicated in Table 4.9.



**Figure 4.7: Scatter Plot**

From the results in Figure 4.7, the data points are spread all over with no clearly established pattern. This could be an indication of absence of heteroskedasticity in the data and thus suitable for regression analysis.

#### 4.5.4 Autocorrelation Test

For autocorrelation, the study used Durbin Watson test to determine presence of serial correlation in the data set.

**Table 4.9: Autocorrelation Test**

<b>Model</b>	<b>Durbin Watson</b>
1	2.001

The results in Table 4.9 indicate the value of Durbin Watson as 2.001; this means that there was no autocorrelation in the data set used in the study.

#### 4.5.5 Factor Analysis

Factor analysis was also used as part of the diagnostic test to determine the extrinsic factors to be retained in the study for further analysis. To do this, the study relied on the values of Communalities shown in Table 4.10.

**Table 4.10: Communalities**

	<b>Initial</b>	<b>Extraction</b>
I know that the firm pays taxes because other similar SMEs are compliant	1.000	.910
I believe the firm pays taxes because it is the right thing to do irrespective of existence of penalties for non-compliance	1.000	.875
I believe the firm pays taxes because there is limited tax evasion among other SMEs	1.000	.916
I know that the firm pays taxes in order to avoid injunctions	1.000	.566
I consider tax compliance as a certain situation	1.000	.494
I file tax returns in time to avoid risky behavior	1.000	.920
We consider payment of taxes as our collective responsibility to the country	1.000	.392
We collectively work to ensure that tax is paid on time	1.000	.910
We take pride in timely filling of tax returns in the firm	1.000	.640
I pay tax because my supervisor is also tax compliant	1.000	.912
There firm pays taxes because the tax administration is cooperative	1.000	.800
The fact that the tax administration is not controlling motivates the firm to pay taxes	1.000	.906
The firm pays tax because we trust the money is used wisely	1.000	.900
I believe the existing tax laws are easy to understand	1.000	.945
The firm pays taxes because I believe it is morally right to do so	1.000	.695
The tax reliefs motivates the firm to pay taxes	1.000	.560
The firm pays taxes on time to get tax credit	1.000	.914
The firm accurately records all the incomes on tax returns to get investment allowances	1.000	.789
The firm files tax return on time to get accelerated depreciation	1.000	.932

Extraction Method: Principal Component Analysis

From Table 4.10, all items except one had values of Communalities above 0.4. The statement with a communality value of less than 0.04 was that respondents considered payment of taxes as their collective responsibility to the country and its communality was 0.392. The general rule of thumb is that items with communalities above 0.4 should be retained for further analysis. Thus, all the items accept the one with communality less than 0.4 are retained and used to compute composites for conducting correlation and regression analysis as detailed in subsequent sections.

#### 4.6 Relationship between Extrinsic Factors and Tax Compliance

The study used correlation analysis to determine the relationship between extrinsic factors and tax compliance. In interpreting correlation results, the study relied on values of Pearson correlation  $r$ ; which range from 0 to 1. This value of  $r$  can either be positive or negative. The value of  $r$  within the range of 1-0.29 indicate weak relationship, the value between 0.3-1.49 indicate moderate relationship and the value over 0.5 indicate strong relationship. Consider Table 4.11 for the findings.

**Table 4.11: Correlation Results**

		<b>Tax Compliance</b>	<b>Social Norms</b>	<b>Culture</b>	<b>Tax Morale</b>
Tax Compliance	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	245			
Social Norms	Pearson Correlation	.737**	1		
	Sig. (2-tailed)	.000			
	N	245	245		
Culture	Pearson Correlation	.120	-.018	1	
	Sig. (2-tailed)	.061	.776		
	N	245	245	245	
Tax Morale	Pearson Correlation	-.318**	-.271**	.314**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	245	245	245	245

From the results in Table 4.11, social norms ( $r=0.737$ ) was found to have strong and positive relationship with tax compliance. This finding is supported by Çevik and Yeniçeri (2013) indicated that social norms have significant influence on tax compliance. Mutatembwa (2013) established that social norms have direct and significant influence on tax compliance. Culture ( $r=0.120$ ) was found to have a weak and positive relationship with tax compliance. The result is in line with Guerra and Harrington (2017) established that individual evasion choices are strongly affected by risk aversion and individual perception about others' compliance behavior. Brink and Porcano (2016) established that specific country characteristics, such as culture and economic structure, will impact how individuals respond to policy (e.g., new laws or



penalties). Tax morale ( $r=-0.318$ ) was found to have a negative and moderate relationship with tax compliance. It can therefore be inferred that extrinsic factors have a relationship with tax compliance. Netshaulu (2016) revealed that complexities in tax laws and regulations, trust in government as well as tax audit all have an effect on tax morale which ultimately affects tax compliance.

#### 4.7 Test for Moderation

The study used regression analysis to test for the moderating effect of government facilitation in the interaction between extrinsic factors and tax compliance. This was done in a systematic way as detailed in subsequent sections.

##### 4.7.1 Extrinsic Factors and Tax Compliance

The study regressed extrinsic factors and tax compliance and the results of the model summary, Analysis of Variance (ANOVA) and the beta coefficients are shown in subsequent sections. Table 4.12 gives the results of the model summary.

**Table 4.12: Model Summary**

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.750 <sup>a</sup>	.563	.558	1.05400

a. Predictors: (Constant), Tax Morale, Social Norms, Culture

As shown in Table 4.12, the value of R square is 0.563; which infers that the study model was fairly fit. The adjusted R square value of 0.558; which means that 55.8% variation in tax compliance is jointly explained by extrinsic factors. The results of the Analysis of Variance are indicated in Table 4.13.

**Table 4.13: Analysis of Variance**

	<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	344.924	3	114.975	103.496	.000 <sup>b</sup>
Residual	267.729	241	1.111		
<b>Total</b>	<b>612.653</b>	<b>244</b>			

a. Dependent Variable: Tax Compliance

b. Predictors: (Constant), Tax Morale, Social Norms, Culture

From the results in Table 4.13, the value of F calculated is 103.496; which is large enough to result into an inference that the overall model used in the study was significant ( $p < 0.05$ ). The results of the regression beta coefficients are indicated in Table 4.14.

**Table 4.14: Regression Coefficients**

	<b>Unstandardized Coefficients</b>		<b>Standardized Coefficients</b>	<b>t</b>	<b>Sig.</b>
	<b>B</b>	<b>Std. Error</b>	<b>Beta</b>		
(Constant)	4.085	.892		4.581	.000
Social Norms	.596	.037	.708	15.957	.000
Culture	.035	.021	.075	1.669	.096
Tax Morale	-.057	.026	-.102	-2.182	.030

a. Dependent Variable: Tax Compliance

Consider the following equation as formulated from the results in Table 4.14;

$$Y = 4.085 + .596X_1 + .035X_2 - .057X_3 + \epsilon \dots \dots \dots (3.2)$$

Where,  $X_1$ =Social Norms,  $X_2$ = culture and  $X_3$  tax morale and  $Y$ =tax compliance

Thus, at 5% level of significance, social norms ( $p = 0.000 < 0.05$ ) has significant effect on tax compliance. Tax morale ( $p = 0.030 < 0.05$ ) has significant effect on tax compliance. However, culture ( $p > 0.05$ ) was found to have an insignificant effect on tax compliance. The result contradicts Salehi et al (2014) who established a positive relationship between culture and tax compliance. The study formulated a number of hypotheses and they were tested based on the p-values from Table 4.14 above. The hypotheses are provided below:

## 4.8 Hypotheses Testing

**Table 4.15: Summary of Hypotheses Test and Results**

No	Hypotheses	P value	Decision
H0	Government facilitation has not significant relationship between Social norms and tax compliance among Small and Medium Enterprises in Kisumu County, Kenya	0.000<0.05	Reject
H0	Government facilitation has no significant relationship between Culture and tax compliance among Small and Medium Enterprises in Kisumu County, Kenya	0.027<0.05	Reject
H0	Government facilitation has a significant moderating effect on the relationship between Tax morale and tax compliance among Small and Medium Enterprises in Kisumu County, Kenya	0.000<0.05	Reject

**Source: (Research data, 2020)**

The first null hypothesis, **H<sub>0</sub>**, that Government facilitation has not significant relationship between Social norms and tax compliance among Small and Medium Enterprises in Kisumu County, Kenya

The second null hypothesis, **H<sub>0</sub>**, that Government facilitation has no significant relationship between Culture and tax compliance among Small and Medium Enterprises in Kisumu County, Kenya

The third null hypothesis, **H<sub>0</sub>**, that Government facilitation has a significant moderating effect on the relationship between Tax morale and tax compliance among Small and Medium Enterprises in Kisumu County, Kenya

### 4.8.1 Government Facilitation and Tax Compliance

At this level, the study introduced government facilitation in the model which was the moderating variable. Table 4.16 gives the results of the Model Summary.

**Table 4.156: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.617 <sup>a</sup>	.381	.376	1.25217

a. Predictors: (Constant), Government Facilitation, Extrinsic Factors

The introduction of the moderating variable in the model resulted in a drop in the values of R squared and adjusted R square. From the results, the adjusted R square is 0.376; which means that 37.6% variation in tax compliance is explained by extrinsic factors with the moderation of government facilitation. The ANOVA findings are detailed in Table 4.17.

**Table 4.167: Analysis of Variance**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	233.213	2	116.606	74.369	.000 <sup>b</sup>
Residual	379.440	242	1.568		
<b>Total</b>	<b>612.653</b>	<b>244</b>			

a. Dependent Variable: Tax Compliance

b. Predictors: (Constant), Government Facilitation, Extrinsic Factors

Table 4.17 gives the value of F calculated as 74.369; this means that the overall regression model was significant. The results of the regression beta coefficients and significance are indicated in Table 4.18.

**Table 4.18: Regression Coefficients**

	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
(Constant)	18.239	.826		22.090	.000
Extrinsic Factors	-.004	.013	-.015	-.295	.768
Government Facilitation	-.346	.029	-.613	-11.796	.000

a. Dependent Variable: Tax Compliance

From the results in Table 4.18, the following equation is formulated:

$$Y = 18.239 - .004EPF - .346GvF + \epsilon \dots \dots \dots (3.3)$$

Where:

EPF= Extrinsic Factors

GvF= Government Facilitation

At 5%, the study noted that government facilitation ( $p < 0.05$ ) has significant moderation effect in the interaction between extrinsic factors and tax compliance. On the other hand, this model did not find evidence of the extrinsic factors significantly affecting tax compliance ( $p > 0.05$ ).

#### 4.8.2 The Product Model

The product of government facilitation and extrinsic factors was obtained and subsequently introduced in the model to represent the moderating variable government facilitation. The results of the model summary as indicated in Table 4.19.

**Table 4.179: Model Summary**

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.736 <sup>a</sup>	.541	.535	1.08022

a. Predictors: (Constant), Government Facilitation \* Extrinsic Factors, Extrinsic Factors, Government Facilitation

The results in Table 4.19 indicate that the value of R square is 0.541; this shows that the model used in the study was fit. The value of adjusted R square is 0.535; which is interpreted to imply that 53.5% change in tax compliance is jointly explained by extrinsic factors as the independent variable and government facilitation as the moderating variable jointly.

**Table 4.20: Analysis of Variance**

	<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	331.439	3	110.480	94.681	.000 <sup>b</sup>
Residual	281.214	241	1.167		
<b>Total</b>	<b>612.653</b>	<b>244</b>			

a. Dependent Variable: Tax Compliance

b. Predictors: (Constant), Government Facilitation \* Extrinsic Factors, Extrinsic Factors, Government Facilitation

The results in Table 4.20 indicate that the value of F calculated was 94.681; this means that the overall regression model was significant. The findings of the beta coefficients are shown in Table 4.21.

**Table 4.181: Regression Coefficients**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-22.570	4.505		-5.010	.000
Extrinsic Factors	.730	.081	3.018	9.046	.000
Government Facilitation	1.693	.224	3.002	7.569	.000
Government Facilitation* Extrinsic Factors	-.037	.004	-5.243	-9.175	.000

a. Dependent Variable: Tax Compliance

The predicted equation from Table 4.21 becomes;

$$Y = -22.570 + .730PF + 1.693GvF - .037EPF * GvF + \epsilon \dots \dots \dots (3.4)$$

Where:

GvF \* EPF= Government facilitation  $\times$  Extrinsic Factors

At 5%, the study noted that extrinsic factors ( $p < 0.05$ ) have significant effect on tax compliance. Government facilitation ( $p < 0.05$ ) was also found to be a significant moderating variable in the interaction between extrinsic factors and tax compliance. The implication of the results in Table 4.21 is that government facilitation is a moderator variable in the regression equation used in the study.

The following hypothesis was formulated by the study:

***H<sub>04</sub>**: Government facilitation moderates the relationship between extrinsic factors and tax compliance among Small and Medium Enterprises in Kisumu County, Kenya.*

Thus, based on the results, the study accepts hypothesis **H<sub>04</sub>**.

#### **4.8.3 Summary of the Hypotheses Tested and the Outcome**

The hypotheses that were tested by the study are summarized in Table 4.22 with the decisions of acceptance and rejection that were made on the basis of the p-values of the regression model.

**Table 4.192: Summary of the Hypotheses Tested and the Outcome**

<b>Hypotheses</b>	<b>p-value</b>	<b>Decision</b>
H <sub>01</sub> : Government facilitation moderates the relationship between Social norms and tax compliance among Small and Medium Enterprises in Kisumu County, Kenya	p=0.000	Accept the hypothesis(p<0.05)
H <sub>02</sub> : Government facilitation has a significant moderating effect on the relationship between Culture and tax compliance among Small and Medium Enterprises in Kisumu County, Kenya	p=0.096	Reject the hypothesis(p>0.05)
H <sub>03</sub> : Government facilitation has a significant moderating effect on the relationship between Tax morale and tax compliance among Small and Medium Enterprises in Kisumu County, Kenya	p=0.030	Accept the hypothesis(p<0.05)
H <sub>04</sub> : Government facilitation moderates the relationship between extrinsic factors and tax compliance among Small and Medium Enterprises in Kisumu County, Kenya.	p=0.000	Accept the hypothesis(p<0.05)

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

This section presents a summary of the analyzed findings as informed by the specific objectives. The conclusion arising from these findings is also provided and the recommendations for policy makers. The areas that require further research are also well discussed.

#### 5.2 Summary of the Findings

The study was established to determine the interaction between extrinsic factors and tax compliance with the moderating effect of government facilitation. The study had specific objectives as represented by social norms, culture, and tax morale as the independent variable and government facilitation as the moderating variable. Three theories provided anchorage to the study: tax morale theory, the theory of planned behavior as well as the theory of crime. The adopted design was exploratory and information was gathered from primary sources.

The first objective of the study sought to establish the moderating effect of government facilitation between social norms and tax compliance. From the results, respondents generally agreed on social norms being one of the extrinsic factors that affected their ability to comply with taxes. Respondents had mixed views on whether their firm paid taxes because it was the right thing to do irrespective of existence of penalties for non-compliance. The social norms enabled the respondents to have knowledge on know that the firm paid taxes because other similar SMEs were compliant. Correlation results indicated that social norms have strong and positive relationship with tax compliance. Regression results indicated that social norms have significant effect on tax compliance.



The second objective sought to determine the moderating role of government facilitation between culture and tax compliance. It was shown that majority of the respondents agreed on culture as an extrinsic factor affecting tax compliance of their respective firms. There was also mixed reactions among respondents on whether they filed file tax returns in time to avoid risky behavior, they collectively worked to ensure that tax is paid on time or they took pride in timely filling of tax returns in the firm. The findings of correlation analysis showed that culture has a weak and positive relationship with tax compliance. However, regression analysis indicated that culture has an insignificant effect on tax compliance.

The third objective was interested at determining the moderating effect of government facilitation on tax morale and tax compliance. The study revealed that respondents generally agreed on tax morale as one of the extrinsic factors influencing tax compliance in their respective firms. There were no significant variations in the views expressed by respondents on tax morale as a factor that informed their tax compliance as shown by low values of standard deviations. Respondents highly reacted on whether their firm paid taxes because they believe it was morally right to do. Correlation analysis showed that tax morale was has a negative and moderate relationship with tax compliance. From regression analysis, tax morale was found to have a significant effect on tax compliance.

The focus of the last objective was to find out the moderating effect of government facilitation in the relationship between extrinsic factors and tax compliance. It was shown that respondents agreed on the various statements of government facilitation. Respondents highly agreed that tax relief motivated the firm to pay taxes. Furthermore, tax credits, investment allowances and the need to get accelerated depreciation all

motivated the firms to comply with taxes. Regression results showed that government facilitation significantly moderates interaction between extrinsic factors and tax compliance.

### **5.3 Conclusion**

The broad objective of the study was to determine the interaction between extrinsic factor and tax compliance and establish whether government facilitation moderates this relationship. From the results, the study has shown that extrinsic factors have significant effect on tax compliance. The study has also shown that government facilitation moderates the relationship between extrinsic factors and tax compliance. The two key extrinsic factors that have been shown to have significant effect on tax compliance are the social norms and the tax morale. The study however failed to establish the significant role of culture on tax compliance.

The study formulated four hypotheses which were tested with the help of regression analysis. From the findings, the study accepts the following hypotheses: H<sub>01</sub>, H<sub>03</sub> and H<sub>04</sub> which states that government facilitation moderates the relationship between Social norms and tax compliance; government facilitation has a significant moderating effect on the relationship between Tax morale and tax compliance; and that government facilitation moderates the relationship between extrinsic factors and tax compliance respectively. However the study rejects hypothesis H<sub>02</sub>, which states that government facilitation has a significant moderating effect on the relationship between culture and tax compliance.

#### **5.4 Recommendations of the Study**

Based on the results, the study makes the following recommendations:

There is need to tax authorities and officials to understand and appreciate the role played by social norms as far as encouraging tax compliance among tax payers is concerned. In addition to use of forces include penalties and interests, tax authorities should have a clear understanding that tax payers can be made to voluntarily comply with taxes through their social norms.

Tax morale has been shown to have a negative but significant effect on tax compliance. The implication of this result is that demoralized tax payers will definitely not comply with taxes as compared with tax payers having high tax morale. Therefore, in order to enhance the morale of the tax payers, the tax authorities should cultivate a culture of trust with the tax payers. There should be an increase in accountability of the amount of taxes collected so that the tax payers gain morale in paying taxes hence compliance.

Government facilitation has been shown to moderate the interaction between extrinsic factors and tax compliance. Thus, this study recommends for efforts to be put in place of providing incentives as well as increasing the number tax centers where tax payers can easily access to seek for assistance as far as tax matters are concerned.

#### **5.5 Areas for Further Research**

This study was conducted among Small and Medium Enterprises (SMEs) operating in Kisumu. Thus, future studies are recommended in other firms apart from the SMEs for instance the limited liability companies. The study focused on extrinsic factors and tax compliance, with government facilitation as a moderator variable. Thus, future studies should be conducted with key focus on intrinsic factors and revenue collection or performance.

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**APPENDICES**  
**Appendix I: Consent Letter**

Dear Respondent,

RE: **DATA COLLECTION**

I am a student at the Moi University, currently undertaking a research study on **MODERATING ROLE OF GOVERNMENT FACILITATION ON THE RELATIONSHIP BETWEEN EXTRINSIC FACTORS AND TAX COMPLIANCE AMONG SMES IN KISUMU**. You have been selected to participate in this study and I would highly appreciate if you assisted me by responding to all questions in the attached questionnaire as completely, correctly and honestly as possible. Your response will be treated with utmost confidentiality and will be used only for research purposes of this study.

Your cooperation is highly appreciated.

Yours sincerely,

Duncan Katubah Musyoka



## Appendix II: Questionnaire

### SECTION A: DEMOGRAPHY

1) What is your gender

Male

Female

2) What is your highest level of education?

Certificate  Diploma  Degree

Masters  PhD

Other (Please explain) -----

3) How long has the organization been in existence?

1- 5 years  5-10 years

10-15 years  above 15 years

4) What is the average number of employees in the firm?

1- 5  5-10

10-15  above 15

5. Kindly indicate the average revenue generated by your firm annually?

.....  
 .....

### SECTION B: DEPENDENT VARIABLE TAX COMPLIANCE

6 Does the firm remit all the taxes deducted (PAYE, VAT and Withholding taxes) to the Kenya Revenue Authority (KRA) in time?

Yes  No

7. For each of these statements on tax compliance, kindly indicate the extent of your agreement on how it applies in your organization. Use the Likert scale which ranges from 1 -5 where 1= strongly disagree; 2 = disagree 3= neutral; 4= agree and 5= strongly agree.

Statement	1	2	3	4	5
New employees with tax PIN certificate are timely registered for taxation in the SME					
Tax returns are timely filed in the firm					
All incomes are accurately declared on the tax returns in the firm					

### SECTION C: INDEPENDENT VARIABLE SOCIAL NORMS

8. In your opinion, do you think the different social norms of employees influence how the firm complies with taxation?

Yes [ ] No [ ]

9. For each of these statements on social norms, kindly indicate the extent of your agreement on how they affect tax compliance in your organization. Use the Likert scale which ranges from 1 -5 where 1= strongly disagree; 2 = disagree 3= neutral; 4= agree and 5= strongly agree.

Statement	1	2	3	4	5
I know that the firm pays taxes because other similar SMEs are compliant					
I believe the firm pays taxes because it is the right thing to do irrespective of existence of penalties for non-compliance					
I believe the firm pays taxes because there is limited tax evasion among other SMEs					
I know that the firm pays taxes in order to avoid injunctions					

**SECTION D: INDEPENDENT VARIABLE CULTURE**

10. For each of these statements on culture, kindly indicate the extent of your agreement on how it affects tax compliance in your organization. Use the Likert scale which ranges from 1 -5 where 1= strongly disagree; 2 = disagree 3= neutral; 4= agree and 5= strongly agree.

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
I consider tax compliance as a certain situation					
I file tax returns in time to avoid risky behavior					
We consider payment of taxes as our collective responsibility to the country					
We collectively work to ensure that tax is paid on time					
We take pride in timely filling of tax returns in the firm					
I pay tax because my supervisor is also tax compliant					

**SECTION E: INDEPENDENT VARIABLE TAX MORALE**

11. For each of these statements on tax morale, kindly indicate the extent of your agreement on how it affects tax compliance in your organization. Use the Likert scale which ranges from 1 -5 where 1= strongly disagree; 2 = disagree 3= neutral; 4= agree and 5= strongly agree.

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
The firm pays taxes because the tax administration is cooperative					
The fact that the tax administration is not controlling motivates the firm to pay taxes					
The firm pays tax because we trust the money is used wisely					
I believe the existing tax laws are easy to understand					
The firm pays taxes because I believe it is morally right to do so					

**SECTION F: MODERATING VARIABLE GOVERNMENT FACILITATION**

12. For each of these statements on government facilitation, kindly indicate the extent of your agreement on how it moderates how extrinsic factors influence tax compliance in your firm. Use the Likert scale which ranges from 1 -5 where 1= strongly disagree; 2 = disagree 3= neutral; 4= agree and 5= strongly agree.

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
The tax reliefs motivates the firm to pay taxes					
The firm pays taxes on time to get tax credit					
The firm accurately records all the incomes on tax returns to get investment allowances					
The firm files tax return on time to get accelerated depreciation					

**THANK YOU**

### Appendix III: Research Authorisation



REF: KESRA/NBI/036

11<sup>th</sup> October, 2020

TO WHOM IT MAY CONCERN

**RE: REQUEST FOR RESEARCH PERMIT:**

NAME ; DUNCAN KATUBAH MUSYOKA

REG. NO.; MU/KESRA/0046/2016

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 “ **MODERATING ROLE OF GOVERNMENT FACILITATION ON THE RELATIONSHIP BETWEEN EXTRINSIC FACTORS AND TAX COMPLIANCE AMONG SMES IN KISUMU**”

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

Thank you.

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

**P. O. Box 48240 – 00100, Nairobi**

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

**Tel: +254715877535/9**



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