# EFFECT OF DIGITALIZATION EFFECTIVENESS ON TURNOVER TAX COMPLIANCE AMONG TEXTILE SMALL AND MEDIUM SIZE ENTERPRISES IN EASTLEIGH, NAIROBI COUNTY

**BY**

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# DECLARATION

**Declaration by the Student**

This research project is my own work, and it has never been presented for a degree at any other University. No part of this report can be copied without the author and/or Moi University's written permission.

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## DEDICATION

I dedicate this project to my loving mother for her unwavering support in my studies.

## ACKNOWLDEGMENT

I would like to thank Allah, for His presence, comfort and strength in the entirety of this study. I would also like to thank my supervisors, Dr. Daniel K. Kirui and Dr. Marion Nekesa for their keen guidance, wise counsel and support throughout this master's project. Additionally, all the lecturers I interacted with during my classwork deserve accolades. Finally, I thank my family for their encouragement and support on accomplishment of this research.

## ABSTRACT

Taxes are an important way for both developed and developing economies to raise money for government projects that help them grow. The main purpose of this study was to determine the effect of digitalization effectiveness on turnover tax compliance among small and medium size enterprises in Eastleigh, Nairobi County. The specific objectives that guided the research were: to study the relationship between technological ease of use and turnover tax compliance; to establish the relationship between technology usefulness and turnover tax compliance and to examine the relationship between system security mechanism and turnover tax compliance among small and medium size textile enterprises. This study was grounded on Technology Acceptance Model and Unified theory of Acceptance and use of Technology. Explanatory research design was applied in this study. The target population was textile enterprises operating in Eastleigh. Stratified sampling technique was utilized since the population itself was stratified in nature. Yamane's (1973) formula was used to determine the sample size of 243 textile SMEs. Data was collected using questionnaires and analyzed descriptively. To establish the relationship between study variables correlations and regression analyses were carried out. The study showed that regression coefficient ($\beta = .098$, $t(171) = 1.343$, $p>.05$) for technological ease of use, implying that a single unit improvement in technological ease of use improves turnover tax compliance by 9.8%. However, this was found to be insignificant ($P=0.181>0.05$). On the other hand, regression coefficient for technology usefulness was ($\beta = .311$, $t(171) = 0.002$, $p<.05$); implying that technology usefulness accounts for 31.1% of the variance in turnover tax compliance. This was found to be significant and thus, affirms that technology usefulness have a significant relationship with turnover tax compliance among small and medium size textile enterprises in Eastleigh, ($P=0.002<0.05$). On system security mechanism, the regression coefficient showed ($\beta = .129$, $t(171) = 0.151$, $p>.05$), implying that a single unit system security mechanism improves turnover tax compliance by 12.9%. However, this was found to be insignificant ($P=0.151>0.05$).The study concludes that technology had removed the effort for users to become compliant and they were open to accept new technology that would enable them become compliant. This study recommends that KRA need to ensure that their digital systems are easy to use and useful to taxpayers. KRA also need to ensure that their online system is reliable, functional and effective. This may increase the efficiency and convenience of filing taxes which may lead to positive experience and attitude that would facilitate compliance.

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## ABBREVIATIONS AND ACRONYMS

| | | |
|---|---|---|
| CRA | : | Canada Revenue Agency |
| KRA | : | Kenya Revenue Authority |
| OECD | : | Organization for Economic Co-operation and Development |
| PIN | : | Personal Identification Number |
| SMEs | : | Small and Medium Sized Enterprises |
| SPSS | : | Statistical Package for Social Sciences |
| TAM | : | Technology Acceptance Model |
| TAM | : | Technology Acceptance Model |
| TOT | : | Turn over Tax |
| TTF | : | Task Technology Fit |

## OPERATIONAL DEFINITIONS OF TERMS

**Digitalization** means using digital technologies to change an operating model and operational processes, which can lead to more ways to make money and create value (Schreckling & Steiger, 2017).

**Technological ease of use** is the degree to which a person thinks that using a certain system won't take much work (Jones & Kauppi, 2018).

**Perceived technology usefulness** is the tendency to use or not use a technology based on how much a person thinks it will help him or her do his or her job better or make it easier (Soscia, Arbore & Hofacker, 2011).

**Perceived system security** mechanisms are how users feel about how their personal information works and is controlled in an online system (Hansen, 2014).

**Tax compliance** means that taxpayers follow tax laws and rules by paying their taxes on time and correctly (Andrew, 2014).

**Turnover tax** is the tax that has to be paid by residents whose annual gross sales are more than Ksh 1 million but less than Ksh 50 million (Russo, 2019).

# CHAPTER ONE

# INTRODUCTION

## 1.0 Overview

This chapter provides an overview of the research on the effect of digitization on compliance with turnover taxes. The chapter begins with the study's background, then moves on to the problem statement, the study's objectives, significance, scope, and limitations of the study.

## 1.1 Background to the Study

The extent to which a taxpayer complies or discomplies with national tax laws is known as tax compliance (Ahmed & Kedir, 2015). Accurately declaring income and deducting costs in conformity with the applicable tax legislation is known as tax compliance (Sapiei, Kasipillai & Eze, 2014). It is the process of timely submitting tax forms, explanations, and payments in order to satisfy a taxpayer's civil tax payment obligation (Daniel, Akowe & Awaje, 2016). According to Mas'ud, Aliyu, and Gambo (2014), tax compliance is a global phenomenon that burdens both developed and developing nations and has turned into the top priority for all tax administrations (Damayanti, Sutrisno, Subekti & Baridwan, 2015).

Economic, social, and psychological factors have an impact on tax compliance (Heenkenda, Weerasekara & Chathurangani, 2016). Tax rates, the advantages of tax evasion, the likelihood of being caught, and the penalties for fraud all affect how economically deterrent tax compliance is. Societal pressure creates social norms, which affect people's attitudes toward tax compliance. Spending on public goods and services by the government has a significant impact on tax compliance (Damayanti, Sutrisno, Subekti & Baridwan, 2015). However, there are other factors that affect tax compliance that are categorized differently by various academics, most of which

overlap (Ahmed & Kedir, 2015). For instance, Mutinda (2018) classified individual tax compliance decisions according to the following categories: industry considerations, accounting factors, psychosocial factors, tax administration factors, and economic factors.

According to Otusanya (2011), governments lose money when multinational corporations violate tax laws by concealing income and faking documents to avoid paying their fair share of taxation. Revenue authorities' primary function is to boost tax compliance and, consequently, revenue collection. Tax evasion, on the other hand, is criminal while tax avoidance, through tax planning, is the lawful approach to avoid paying tax. Both under-declaration and smuggling fall under several articles of criminal law and are punishable accordingly.

Contrarily, tax non-compliance may take the following forms, including but not limited to: failing to file tax returns within the allotted time frame or failing to disclose the correct taxes. It is the criminal behavior by taxpayers carried out either intentionally or unintentionally to dodge paying taxes to the appropriate tax body (Bidin & Sinnasamy, 2017). This might also entail overclaiming costs to lower tax obligations. Otusanya (2011) stated that tax evasion lowers government revenue and cited situations where multinational corporations were accused for underreporting their revenues and falsifying documents.

Adoption of digital platforms has altered many areas of our daily life, including the structure and operation of our economy and society (Schallmo & Tidd, 2021). More than 50 nations have already digitized their tax systems due to its potential to improve tax compliance and cut expenses (Barreix & Zambrano, 2018). Digitalization is changing how tax administrations work, enhancing the effectiveness of processes and the provision of services (Gupta, 2017). Taxpayers are changing their business

models, how they pay their taxes, and how they interact with the tax office as a result of digitalization. With more choices for online payment and tax return submission, there has been a considerable shift towards e-administration (OECD, 2018).

Inasius (2018) suggest that various factors paly a fundamental role in individual tax compliance. This includes factors are unique to each person, include the severity of their financial situation and their familiarity with relevant laws and their corresponding punishments. High tax rates, dealing with the regulatory body, tax fairness, internal costs consumed in completing tax activities, and poor social influences are all examples of factors that can increase or decrease the cost of complying with tax laws. Increasing tax compliance could be a positive or negative outcome of raising public awareness through education and other forms of facilitation.

In order for tax authorities to continue to foster voluntary compliance when offering services to the taxpayer through various channels, digitization is now a requirement (OECD, 2016). In an effort to improve efficiency and effectiveness, several tax administrations are undergoing a global revolution in tax compliance. To enable real-time or nearly real-time collection and analysis of precise taxpayer data, frequently at the transactional level, tax authorities are utilizing cutting-edge digital technologies. The necessity for sophisticated commercial systems and processes to adapt to information and communications technology systems created by the public sector is resulting in some fascinating dynamics. Tax compliance costs are decreased and fraud is improved with electronic filing (KRA, 2020).

Perceived utility and perceived usability, according to Azmi and Bee (2011), are the main factors influencing how often a new information system is used. A new information system's intended application and actual usage by computer users are influenced by perceived utility and usability (Hussein, 2010). The two aspects of

perceived system security are privacy security risk and performance security risk. According to Azmi and Bee (2010), taxpayers' perceptions of the system's dependability in terms of its operation and utility as well as their ability to restrict the use of their personal information online.

They go on to say that perceived system security risk is a worry about the protection of different sorts of data that are gathered during taxpayer interactions with the electronic filing system owing to worries about outside parties having access to their private data. The potential for the system to fall short of its commitments is referred to as the system security performance risk. In the research on how perceived system security, perceived usefulness, and perceived usability interact, According to Azmi and Bee (2010), adopting and utilizing technology involves risk when dealing with complicated systems that require time to learn.

By means of the provisions of the Income Tax Act, Cap. 470 under Section 12C as read with Section 34 and subsidiary laws, as well as The Income Tax (Turnover Tax) Rules 2007, Turnover Tax was established by the Finance Act of 2007. Small taxpayers' voluntary registration was supplanted by it (Muthoni, 2018). In Kenya, groupings of firms whose anticipated annual revenue is less than 5 million Kenyan shillings are subject to turnover tax. This tax has its origins in the Finance Act of 2007, which gives the government the authority to implement it through section 12c of the Income Tax Act, Cap. 470. According to Ouma et al. (2007), the turnover tax specifically targets small traders, which includes micro and small firms. These enterprises are mostly unregistered and rely heavily on labor-intensive production processes as their main means of output. For tax purposes, TOT is a final tax levied at 3% on gross sales without deductions for expenses or capital investments. It is paid on the twentieth day of the month after the end of a quarter (Mutua, 2012).

A one-time direct tax known as turnover tax is gathered by governments. Turnover tax is calculated by simply applying a single tax rate to a taxable turnover, as opposed to the income tax system, which uses many regulations and procedures and necessitates the maintenance of documentation for each expense (Russo, 2019). Different criteria are used by different countries to decide whether a turnover tax must be applied. Turnover taxes have different structures depending on the governments and the items that are taxed. This is done in an effort to keep costs low for everyone (Muyundo, 2012).

Turnover tax is an elective tax that is offered to people (sole proprietors), partnerships, close corporations, firms, and co-operatives. Qualifying small businesses can choose to register for turnover tax or the conventional tax system. The Turnover Tax will be determined by merely applying a tax rate to a taxable turnover, as opposed to the income tax system, which employs extensive inclusion requirements and a reduction process that necessitates the maintenance of proof of expenditure (McCluskey, 2005). Countries that impose a turnover tax have regulations in place that specify when and how much of these taxes should be levied. A value added tax collects the necessary amount by adding a little amount of tax at each stage. Cascade taxes, on the other hand, levy a fresh tax at each phase without taking previous payments into account (Parkin, 2006).

### 1.1.1 Global Perspective

Globally, many tax administrations have included technology in their efforts to increase tax payer compliance. In terms of digital tax networks, some of the top nations include, but are not limited to, Australia, Canada, and Italy (Hartley & Stanley-Smith, 2019). The Australian government started a project in 2013 called "Digital by default" to modernize its operations and systems with the presumption that

people will choose to interact with the government online in the future. Employers must use Single Touch Payroll, a real-time payroll reporting format, starting in July 2018. The new approach implies that rather than the business producing them, employees can obtain their pay summaries through the MyGov portal. Two-factor authentication for personal tax accounts consists of a login and password and a code sent to the taxpayer's mobile device. For corporate tax accounts, a tokenized, hardware-dwelling login is used to log in.

The Canada Revenue Agency has worked to improve its technical capabilities and simplify tax compliance during the past ten years. The Canada Tax Agency targets compliance activity, produces more timely audits, and increases revenue collection using the growing pool of data available. Over 99% of corporate returns and 90% of personal returns are filed electronically, making it the standard by a wide margin. Taxpayers can obtain tax data held by the Canada Revenue Agency through the CRA's websites to help them fill out their forms. The online portal of the Canada Revenue Agency is well-designed for agents to serve their clients, with features including simple client authorization and the flexibility to restrict subordinate staff's view to just the clients they work on instead of the agents' whole client list. When creating new initiatives, the CRA communicates with important stakeholders, including tax agents, having learnt from previous unpopular trial systems. Internal testing of new systems rather than pilot programs is the norm.

For more than ten years, tax filings in Italy have only been available online. However, pre-population for individual taxpayers has only been used since 2015, and the strategy is currently undergoing a considerable expansion. The scheme covers persons who are employed and retired; however, it does not yet cover more complicated scenarios like self-employment. Many Italians avoid paying taxes whenever feasible

because they don't like the services they think they are getting for their money. Tax evasion is rampant, however the issue has been solved by using pre-population more frequently and providing higher-quality information. Additionally, the Italian tax authorities noted in September 2015 that the country's tax deficit had decreased from 7.6% of GDP in the years between 2007 and 2013 to 6.6% of GDP.

### 1.1.2 Regional Perspective

South Africa was the first African nation to adopt electronic tax filing, starting in 2003. Uganda followed in 2009, and other African nations like Kenya, Nigeria, and Rwanda have subsequently followed suit. Tax digitalization initiatives have provided a chance to streamline services and lower compliance costs, which has increased taxpayer adoption. An e-filing portal for employer tax returns was launched by the Lagos State Internal Revenue Service (LIRS) in Nigeria at the beginning of 2019. Through the site, taxpayers can submit their returns online and communicate with the LIRS support staff there. The LIRS e-filing system went into operation right away, and paper returns are no longer accepted. However, it is evident that the Nigerian government is working toward digitalization, with federal task teams advocating it as a way to increase Nigeria's business-friendliness.

The South African Revenue Service (SARS) established a tax e-filing system in 2001 to allow for the filing of Value Added Tax (VAT) and other provision income tax returns that were filed through a third party. Because of the cost involved in filing taxes through an agent, this was a failure. As a result, SARS stopped acting as an agent in 2002 and started letting taxpayers file to them directly. All other taxes, such as PAYE (Pay as You Earn), normal corporate tax, development level tax, etc., were encouraged to file electronically. Since this time, SARS has received more than 90%

of its PAYE through the mechanism for electronically filing taxes (African Development Bank, 2010).

The Zimbabwe Revenue Authority (ZIMRA) introduced electronic filing in 2015, which raised tax filings and made conducting business in Zimbabwe easier. By developing an online system for taxpayers' ease in fulfilling their statutory tax duties, ZIMRA made a significant advancement in its modernization and automation drive. According to Wasao (2014), who affirms that e-filing is the process when tax returns are sent using the internet, without submission of a paper return, registering with ZIMRA online also signifies that the company is able to submit through the internet. The electronic services platform in Zimbabwe has been seen differently, and the taxpayers' opinions on its applicability and usefulness are divided. However, the majority of users accept the system's advantages while vehemently advocating for significant system changes (Obert, Rodgers, Tendai & Desderio, 2018).

The Uganda Revenue Authority made the decision to go online and implement the electronic tax filing system in an effort to increase tax compliance. The Uganda Revenue Authority (URA) launched the system, popularly known as E-Tax, to permit the electronic mode of registrations, files, and payments relating to tax in order to enhance service delivery and increase revenue collections. Currently, Uganda collects roughly 80% of its domestic taxes electronically. At a pace of 4.980 online transactions, the URA has for the first time ever registered better transactions under E-Tax. During the early stages of E-Tax, the URA successfully logged 9 out of 10 online transactions totaling more than SH200 billion ($83.2 million).

### 1.1.3 Local Perspective

Due to the issue with the tax e-filing website's slow processing speed, it took the Kenyan taxpayers around three years to embrace the tax e-filing system when it was implemented there in 2009 (KPMG Africa, 2016). The Kenya Revenue Authority (KRA) began its digitalization journey by making an editable online tax return form available to taxpayers. Following that, KRA made an investment in the outdated Simba custom platform. Later, they created TEAMS, the first attempt at electronic filing, which led to iTax, the present electronic filing system, which was introduced later. Taxpayers can file their returns, get assessment notices, and respond via the iTax portal (Deloitte, 2019).

Gillian (2020) asserts that between 2016 and 2017, Kenya's tax operations' digitization increased revenue collections by more over KES 106.71 billion (USD 1 billion) and played a critical role in identifying data anomalies. The Kenya Revenue Authority picked out fictitiously established businesses and banned inactive PINs in the aftermath of tax reforms. When the KRA delisted nearly 95,000 pins of VAT non-compliant taxpayers in 2021, this became clear. In addition, due to their failure to activate their accounts on i-Tax, more than 4.8 million taxpayers run the risk of having their pins deregistered. The Kenya Revenue Authority has also been able to rely on its digital systems to get real-time data on fluctuations in consumer expenditure due to emergencies, aiding the organization in anticipating the effect on revenues. The KRA aims to address one major issue that has prevented countries from implementing the digital tax while simultaneously attempting to broaden the scope of the digital service tax. The tax has been collected in a fair and equitable manner.

The Kenya Revenue Authority, which is in charge of collecting taxes for the government, came up with the presumptive tax to catch small traders who don't pay

enough taxes to be taxed and aren't registered for tax purposes. This was seen as a way to get taxes from a sector that is often unstable. According to the 2019 EY Kenya tax guide, this tax was supposed to replace the Turnover Tax and is due at 15% of the amount paid for a business permit starting in January 2019. Therefore, the purpose of this study was to determine the impact of digitalization on small and medium-sized businesses in Eastleigh, Nairobi, Kenya, who are required to pay turnover taxes.

### 1.2 Problem Statement

Many tax authorities throughout the world have adopted electronic tax filing of statutory tax returns by taxpayers in an effort to keep up with technology and reduce the costs of taxpayer compliance (Ernst & Young, 2017). International tax authorities are adopting digital platforms at various stages of maturity, from the simple digitization of paper tax returns to the point where taxpayers' tax returns are pre-populated and taxes are collected and verified in real-time through e-filing, e-accounting, e-audit, and e-assess. Although the link between revenue collection and efficient tax administration systems is undeniable, the global tax authorities' digital development levels are still at varying levels, which has a direct impact on their capacity to collect taxes in the digital economy (Regan, 2018).

Despite the use of technology being required for registration, filing tax returns, and paying taxes owed by taxpayers, tax non-compliance in Kenya is still relatively high. This is evident in KRA's repeated failure to accomplish its goals. From 2012/2013 to 2016/2017, the government's goal revenue was higher than the amount actually collected, forcing it to find other ways to close the gap. For instance, the financial year 2011/2012 had a planned revenue collection of ksh.717 billion, but only ksh.707 billion was actually collected. The financial year 2012/2013's target revenue collection was ksh.845.4 billion. Both internal and external causes contribute to

KRA's revenue collection deficits (Kenya Revenue Authority, Fifth Corporate Plan 2012/13-2014-15). The National Treasury says that the authority did not bring in enough money to cover its expenses in 2016/17 and 2017/18, thus it has been tasked with learning more about how to close the budget gap and increase tax collection. In this sense, SMEs need to improve their compliance levels.

Despite the fact that numerous researches on digitization and tax compliance have been conducted, they have solely focused on tax payer education, tax rates, a tax-compliant mindset, or turnover tax collecting performance. Studying factors that influence citizens' tax compliance behavior in Kenya, Tanzania, Uganda, and South Africa, Ali, Fjeldstad, and Sjursen (2013) discovered that in Kenya and South Africa, people who believe it is difficult to avoid taxes are more likely to have a tax compliant attitude than people who believe it is relatively easy to do so. Owota (2021) investigated how different tax rates—such as corporate tax, personal income tax, and sales tax—affect tax compliance in African countries and discovered that both the personal income tax rate and the sales tax rate have a favorable impact on compliance.

KRA has implemented variety of digital systems like itax, simba system, Electronic Cargo Tracking System, Customs Oil Stocks Information System, Valuation System, Cargo Manifest among others. The effectiveness of these digital systems and their effects on turnover tax compliance is not clear, thus presenting a contextual gap. This study therefore sought to address this gap by examining the effect of digitalization effectiveness on turnover tax compliance among textile small and medium size enterprises in Eastliegh. It focused on three variables namely; technological ease of use, perceived usefulness and perceived security risk.

## 1.3 Objectives of the Study

### 1.3.1 General Objective

The general objective of the study was to determine the effect of digitalization effectiveness on turnover tax compliance among textile small and medium size enterprises in Eastleigh, Nairobi County.

### 1.3.2 Specific Objectives

i. To determine the effect of technological ease of use on turnover tax compliance among textile small and medium size enterprises in Eastleigh, Nairobi County

ii. To establish the effect of technology usefulness on turnover tax compliance among textile small and medium size enterprises in Eastleigh, Nairobi County

iii. To examine the effect of system security mechanism on turnover tax compliance among textile small and medium size enterprises Eastleigh, in Nairobi County

## 1.4 Research Hypothesis

i. **Ho**: Technological ease of use has no significant relationship with turnover tax compliance among small and medium size enterprises

ii. **Ho**: Technology usefulness has no significant relationship with turnover tax compliance among textile small and medium size enterprises

iii. **Ho**: System security mechanism has no significant relationship with turnover tax compliance among textile small and medium size enterprises

## 1.5 Significance of the Study

This study will be of value to the following stakeholders:

### 1.5.1 Kenya Revenue Authority

The findings of this study are anticipated to offer KRA insight into the development made thus far in enlisting tax payers through digitization to boost tax compliance. It might improve their comprehension of the SME sector's revenue authorities, allowing them to create plans to improve compliance. It also highlights the difficulties people experience when using new platforms for remitting taxes, which will increase the effectiveness of tax collection.

### 1.5.2 Kenyan Government

Since KRA accounts for 96% of all government revenue, it is crucial for the government treasury to understand how to increase revenue collection efficiency so that appropriate policies may be put in place in other government institutions that are also involved in revenue collecting. Due to tax evasion and a heavy tax burden, the government is unable to collect the necessary taxes from the targeted SMEs. This is so that people may learn how textile SMEs behave when it comes to compliance.

### 1.5.3 Policymakers

Policymakers may find the study's conclusions to be extremely valuable as a point of reference for decisions about the impact of digitization on tax compliance. Other government decision-makers might find the study useful in developing effective management strategies for government entities. The institutions' operations will be coordinated as a result, improving performance.

### 1.5.4 Researchers and Scholars

Researchers and academics who might want to do additional research in this area might use the findings of this study as a guide. By selecting issues that need more

research and providing an analysis of the empirical literature to discover study gaps, researchers and scholars may also use the findings to identify more research opportunities on related studies.

### 1.6 Limitations

The researcher is faced challenges in getting the entire respondent provide the necessary data for the study; this was mitigated by the researcher by reminding respondents to fill and return back the questionnaires. To achieve this, the researcher engaged a research assistant to assist in the follow up and to ensure that respondents are guided on filling the questionnaire. More so, the researcher agreed with the respondents on a friendly timeline period to fill the questionnaires and give on feedback accordingly.

Secondly, some respondents were uncomfortable to share their opinions/ information because of the set rules of confidentiality and privacy. The researcher managed to mitigate this limitation by affirming and assuring to the respondents that the research was meant solely for academic purposes and that the information provided will be safeguarded and not used for any ill motive. Similarly, to ensure confidentiality, respondents were advised not to indicate their personal details on the questionnaire.

### 1.7 Assumptions of the Study

It was assumed that the sample population engaged in this study was representative of the population (taxpayers in Eastleigh) and that they were well informed of the subject being investigated. It was also assumed that respondents were going to cooperate and truly give all the necessary information as stated in the questionnaire. Finally, there was an assumption that the results obtained in this study were of value to textile SMEs, KRA and all other business enterprises in Kenya.

## 1.8 Scope of the Study

The study was limited to the effect of digitalization effectiveness on turnover tax compliance among textile small and medium enterprises within Eastleigh. The research primarily focused the three specific variables namely; technological ease of use, technology usefulness and perceived system security mechanisms. The study used descriptive research design. A structured questionnaire was used to collect primary data owners of small and medium enterprises. This study was carried out in Eastleigh which has many textile enterprises. The study took place between May 2022 and August 2022.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

This chapter focuses on reviewing critically literature related to the research topic. It is structured based on the specific objective under study; relationship between technological ease of use and turnover tax compliance, relationship between technology usefulness and turnover tax compliance, the relationship between perceived system security mechanisms and turnover tax compliance. Theories, empirical literature, and a conceptual framework are also discussed in this chapter.

## 2.2 Study Concepts

### 2.2.1 Turnover Tax Compliance

Taxpayers are obligated to follow and pay attention to their nation's turnover tax laws. Declaring income, submitting a return, and paying taxes on time when due are important compliance requirements (McCluskey, 2012). Tax authorities have a severe difficulty as a result of noncompliance with tax responsibilities since it reduces the amount of resources that can be mobilized for investment by governments in vital social-economic development sectors including infrastructure, health, and education (Wen & Wei, 2019).

According to Simiyu (2013), obstacles such taxpayers' ignorance of their duties, the prohibitive rate of turnover tax, and the rate of payment have an impact on tax collection. According to Tadele (2015), a number of factors, including the tax payers' lack of understanding of the tax system, their failure to pay their taxes, their hostility toward tax officials, the economy, their negative attitude toward the tax system—that is, understating their taxable income significantly—and others, prevent the imposition of taxes from producing the desired results.

High tax tariffs, an insufficient information and accounting system, a fragile regulatory environment, corruption, attitudes, sizable informal sectors, and ambiguous tax rules are some of the issues cited by Fjeldstad (2016) as contributing to low Turnover Tax Compliance in many emerging states. Most governments are working to improve Turnover Tax Compliance as a result of an increase in government projects and a global economic slump (Jimenez and Iyer, 2016). Even though the GDP (gross domestic product) of many nations has been rising over the years, tax compliance remains a significant issue everywhere in the world, but particularly in many emerging nations.

The Kenya Revenue Authority has tried to implement both the presumption and the turnover tax in an effort to include small business owners, with mixed results (Roedl, 2018). The authority has been especially cautious in light of the blatant ETR fraud, lack of taxpayer registration, false input of VAT claims, and administrative difficulties (Wasilwa, 2019). The mere existence of such obstacles indicates a problem with tax compliance that exists in fact at the level of the Kenyan tax administration. Taxpayers and their representatives need to receive high-quality services to assist them in understanding their legal requirements and fulfilling those obligations in order to achieve high levels of compliance (OECD, 2012). Therefore, a high-quality taxpayer service program should guarantee that taxpayer complaints are promptly addressed and that tax authorities are professional and empathetic. Security of taxpayers' records and tax issues ought to be of the utmost priority. Equipment, facilities, and layout should be designed to make it easier for taxpayers to use them (Aslund, 2012).

The difficulties associated with the collection and management of turnover tax in Kenya were examined by Karanja (2018). The study uncovered resource management

issues with turnover taxes administration and suggested harsher penalties for non-compliance. According to a number of studies (Jayawardane 2016), (Abubakari & Christopher, 2013), and others, there is a negative correlation between tax rate and turnover tax compliance in developing nations (Helhel & Ahmed, 2014). However, Bandara1 & Weerasooriya (2019) discovered a negligible positive link between Sirilanka's tax rate and turnover tax compliance.

According to Wasilwa (2019), the Kenya Revenue Authority could indirectly promote compliance by promoting registration, quick payment of taxes owed, and the submission of returns. In a case study of Muranga Town Turnover taxpayers, Muthoni (2018) intended to determine the effects of enforcement strategies on compliance with turnover taxes. According to the findings, audits and fines are effective enforcement tools that have a direct impact on turnover tax compliance. According to the report, in order to boost compliance, K.R.A. should conduct audits and compliance checks on turnover taxpayers more frequently. Understanding the consequences of enforcement actions on turnover tax compliance among Muranga TOT payers would be made easier thanks to the research's insights.

Majiwa (2016) discovered that tax rates had a positive impact on the level of turnover tax compliance among individual tax payers but a negative impact on the level of turnover tax compliance among corporate tax payers while researching the factors influencing turnover tax compliance behavior in Nairobi County. On the other hand, Aondo (2018) found a strong and favorably correlated relationship between tax rates and turnover tax compliance among SMEs in Naivasha. Kirchler (2008) discovered that the tax rate has little bearing on the compliance with turnover tax laws.

### 2.2.2 Digitalization of Tax Administration

There is no universally accepted definition of Micro, Small, and Medium-Sized Enterprises (MSME) (MSMEs). However, when defining them, important factors like the number of personnel, turnover, and capital are taken into account. MSMEs are defined differently in distinct circumstances in Kenya. They are categorized as companies with 1 to 99 employees. Small businesses have between 10 and 49 people, medium-sized businesses have between 50 and 99 employees, and micro businesses have less than 10 employees (KIPPRA 2016). More significantly, SMEs in Kenya account for over 90% of the entire labor force and are essential to both economic growth and poverty alleviation. Additionally, they are a source of competitiveness, innovation, goods, services, and entrepreneurial abilities. Over 7.4 million MSMEs employ roughly 14.9 million Kenyans across a variety of economic sectors (KIPPRA 2019). As a result, the MSMEs include a diverse range of establishments in practically every area of the economy, which increases their contribution to Kenya's tax collection.

According to OECD (2018), tax authorities around the world rely on cutting-edge, digital methods of data and information collection in their pursuit of new and larger revenues. Advanced analyses are made possible by digital platforms, which leads to better tax revenue collection. According to Lima, Khalid, and Chang (2019), tax operations traditionally involve the establishment, collection, and control of tax income, among other associated and conditional actions. Data collection and tax liability determination are prioritized as part of the national tax administration's digitization, which will lead to more secure tax revenue collection and management.

Five components are required for the digitalization of tax administration: technology, people, controlling tax risks, financial resources, and communication (Juswanto & Simms, 2017). The foundation for additional tax system improvements should be laid through the digitalization of tax administration and tax procedures. The tax reform will not be feasible without creating a robust tax administration structure, information system, and professionalization of staff. The tax policy reform should make sure that digital enterprise is taxed in a fair, sustainable, and economic growth-adaptive manner (European Commision, 2017).

The arduous process of digitizing tax administration necessitates significant organizational adjustments (Lipniewicz, 2017). Although digital technology is an effective management tool, the tax administration's experience with this way of operation has frequently been difficult and ineffective. The human factor is incredibly important, even though technology would seem to be the most important component. It is possible to digitize this area of tax administration in a number of ways, including through recruiting, training, determining tax officials' regular or special status (tax technologist), and, eventually, performance evaluation and the compensation and reward system (Juswanto & Simms, 2017).

Digitalization has several ramifications for taxation, affecting tax administration and policy at the national and international levels, providing new instruments, and posing new difficulties. As a result, the recent global discussion about whether or not the international tax rules continue to be "fit for purpose" in a rapidly changing environment has focused on the tax policy implications of digitization. This means that tax policy creation and implementation must take the changing environment into account while also being sufficiently clear to provide the predictability and clarity necessary to promote long-term, sustainable economic growth (OECD, 2018).

Since the global tax landscape is always changing, it can be challenging for tax authorities to keep up with the times and provide a responsive and cutting-edge tax administration system. Electronic filing (e-filing) is a system used by tax authorities to improve the effectiveness of tax administration and compliance (Lai et al., 2011). Today's tax authorities typically communicate with taxpayers through some form of digital or electronic filing. As opposed to paper filing, most tax professionals probably won't see much of a financial benefit from switching to e-filing, especially considering the high cost of the necessary software and gear (Skillman, 2010). Many accountants consider a tax administration system as a necessary and improved foundation for service delivery, but they don't think it's crucial for gaining an edge in the market (ACCA, 2012). This is due to the fact that cutting-edge technology is essential for a streamlined tax administration system (Ralph 2012).

Following public complaints about the KRA's previous online system, which had been in place since 2007, the iTax system was implemented in 2011. Businesses and individuals can use the system to file their tax returns online, check the status of their tax debt at any time, access their tax responsibilities, upload tax files, request compliance certificates, and pay their taxes (Maina and Kioko 2017). Over 30 financial institutions are expected to be incorporated into the system to guarantee coverage for the vast majority of taxpayers. The iTax technology has reduced logistics tax compliance costs by streamlining, speeding up, and securing the tax compliance process.

Therefore, it is anticipated that the iTax system's continuous rollout and operationalization in Kenya will increase revenue yield by expanding the tax base, lowering compliance costs, and strengthening revenue administration (Economic Survey, 2015). In order to lower the cost of tax compliance, lessen physical contact

between employees and taxpayers, and eliminate bribery claims, the Kenya Revenue Authority (KRA) implemented the iTax system. This was done in an effort to achieve international best practices in tax collection (Financial Budget, 2015). KRA wants to compare itself to countries like the US that have fully automated systems (Business Daily, 2015).

The Integrated Tax Management System (ITMS), a previous online system that was launched in 2007 but failed to fully automate taxing and caused significant consumer unhappiness, has been replaced with iTax, which has enhanced functionality. KRA has succeeded in getting rid of rogue tax agents who used to defraud taxpayers by maintaining out-of-date electronic registers of tax agents thanks to the iTax system. By enabling taxpayers to complete their returns offline, download the forms, fill them out at their convenience, and upload them afterwards, it has also reduced the cost of taxation. Similar to how iTax has integrated more than 30 banks to guarantee that the majority of taxpayers are protected (Business Daily, 2015).

### 2.2.3 Perceived Technological Ease of Use

The degree to which a potential user perceives using the target technology to be largely effort-free is defined as perceived ease of use (Ojha, Sahu, & Gupta, 2009). Potential users are more likely to accept and adopt innovations that they believe are simpler to use and less complicated. This has been extensively researched as a factor in the adoption of information technology due to the vast use it has seen in studies. Perceived simplicity of use was recognized by Davis (1989) as a key factor influencing the adoption of IS in the pre-implementation stage.

Perception of use, according to Wahyuni (2015), is a gauge of how much people believe using technology will benefit them all. Taxpayers are more likely to use e-Filing to fulfill their tax obligations if they believe that doing so will help them to

simplify their tax reporting process, increase its quality, effectiveness, and productivity while also saving time. This is because e-Filing is more practical and efficient than paper filing, which will help taxpayers carry out their tax obligations. The system's usability can have an impact on how often e-Filing is used. If a taxpayer can operate e-Filing as needed for their tax reporting, if it is extremely flexible to use, if the information and e-Filing display are simple to read and understand, and if taxpayers believe e-Filing is not a difficult system to use, then it is easy to use. If the taxpayer experiences simplicity of use, it is probably

Usability, as seen from the perspective of the user, plays a significant role in the acceptance of an electronic system. Systems that are usable provide significant advantages to consumers and businesses. A system that enables users to execute jobs quickly, painlessly, and efficiently helps the company save time and money and achieve its objectives. When using new technologies or systems, people believe they won't run into any problems or impediments, which is known as perceived ease-of-use (Hubert et al., 2019). In other words, new systems and technologies need to be simple to use and understand (Hubert et al., 2019). Technology and information-based services may be termed simple to use when they are adaptable, simple to learn, and simple to understand, allowing for their widespread adoption, claim Jahongir and Shin (2014). If users of a piece of technology can operate it efficiently with little mental or physical effort, it might be considered simple to use (Singh & Srivastava, 2018).

Simpler technologies are more likely to be accepted than intricate ones since people tend to favor them (Hubert et al., 2019). When information and technology-based services are simple to understand and provide quick access to the information users need, they are considered to be easy to use (Camilleri, 2018). The effectiveness of the technology is also demonstrated by how simple it is to use, especially given the small

number of resources (such as time) required to use it to accomplish a certain goal (Humbani & Wiese, 2019). Taxpayers' ability to use the e-filing system will be influenced by how simple it is to use. The taxpayer's view of the ease of use of the e-filing system will determine how widely it is used. When a filing system is simple to use, it will be used more frequently. Therefore, the amount of taxpayer compliance increases as a digital tax system's usability increases.

### 2.2.4 Technology Usefulness

The degree to which an individual (user) trusts a system that can enhance their performance is the measure of technology usefulness (Davis & Venkatesh, 2000). The measure of perceived technological usefulness is productivity, effectiveness, and overall benefit. Perceived technological usefulness is also a belief in the utility of a technological system (Prasetya & Putra, 2020). People are motivated to use information and technology-based services based on how valuable they perceive those services to be (Anouze & Alamro, 2019). The extent of taxpayer compliance can be impacted by the use of technology solutions. The user's choice to employ a technology system depends on their perception of its usefulness. The benefits of the electronic filing system can be shown through the taxpayer's level of confidence in the system's ability to enhance or not their performance. Increased perceptions of the value of using the e-filing system may have an impact on compliance levels (Anouze & Alamro, 2019).

More specifically, Lu, Huang, and Lo (2010) contend that a greater level of technological usefulness perception from an online tax filing system would lead taxpayers to believe that the system can improve the efficiency and convenience of tax filing. On the other hand, the ease and speed that an online filing system offers will raise taxpayers' perceptions of the effectiveness of tax filing. Then, taxpayers'

attitudes regarding online tax filing activity will be favorable. Users' attitudes will improve if they believe the online tax filing method is more useful than they do. According to Setiawan and Kurniawan (2018), the perceived value of utilizing the e-filing system has a favorable effect on the degree of taxpayer compliance.

Many times, the systems and technologies selected are those that are thought to improve performance (Hubert et al., 2019). Technology is deemed extremely advantageous if it has a strong positive link with an individual's performance, including their capacity to work and convey knowledge (Humbani & Wiese, 2019). (Camilleri, 2018). The desire to embrace a technology or system increases with the value assigned to it; conversely, the desire to adopt a technology or system decreases with the value assigned to it (Bélanger & Alamro, 2019).

Jiang, Hsu, Klein, and Lin (2000) expanded on the technological usefulness model to examine the methods through which the internet technology has been used. With the aforementioned description, perceived utility is achieved and can be used as a benefit for the simple adoption of a new innovation. Users of any invention are rewarded for their success in using any technology in the context of a company by receiving bonuses. More specifically, a system is stated to be an invention of good performance based on their benefits when a high percentage of users believe in the existence of favorable user impression.

When the South African government established the electronic filing system (eFiling), allowing tax returns to be filed online, Jankeeparsad and Nienaber (2016) investigated the efficacy of an electronic tax system in South Africa. To determine the potential causes of taxpayer acceptance of the electronic tax system, researchers used the deconstructed theory of planned behavior with variables particularly adjusted for South Africa as a developing nation. The biggest obstacle to using

electronic taxes for taxpayers using the manual method was a lack of facilitating conditions like access to computers and the internet, whereas for taxpayers using the electronic method, perceived usefulness was the main factor in their choice to use the electronic tax system.

### 2.2.5 System Security Mechanisms

Adoption of online filing systems is hampered by worries over security flaws or perceived risks associated with their use. Ramoo (2006) contends that perceived risk influences the adoption and usage of the online filing. Concerns were raised by taxpayers using the internet system about the possibility of unwitting third-party access to their sensitive tax information (Geetha&Sekar, 2012). Potential users' interest in implementing the system is impacted when it is unable to fulfill its intended purposes.

Perceived security refers to how users feel their personal information will be handled and used by an online system. A user's propensity to engage with a system is affected by their perception of its security (Tan & Foo, 2012). According to Desmayanti (2012), the presence of management arrangements that may prevent, overcome, and shield information systems from harmful activities, such as illegal use and infiltration of diverse information held, is what constitutes information system security. A user's willingness to use e-filing may be dampened by their perception of the system's security risk, even if they are aware of the benefits (Tan & Foo, 2012).

Security perception did not affect Dewi and Susanti's (2019) demonstration of the intention to adopt electronic filing. Dewi and Susanti (2019) claim that because e-Filling could not ensure data security, people preferred to avoid utilizing it. The ease and convenience with which business customers can use the e-Filing system to report

taxes without exerting additional effort speaks volumes about the system's quality. The process of transferring data to the Directorate General of Taxes can be done quickly, easily, and conveniently thanks to the Application Provider Services (ASP) server, the e-Filing system, which can react and offer confirmation swiftly (Prawati & Dewi, 2018).

The hazards associated with technology are another factor that has a detrimental impact on adoption decisions (Charag, Fazili & Bashir, 2019). Privacy and security are crucial because there is a privacy risk when personal information from tax returns is accessed and utilized for illicit reasons (Ryu, Kim, & Kim 2018). They will be less likely to use online services and more cautious to submit their data to those services if they feel there is a significant level of risk involved. To put it another way, people won't use internet services if they think their data isn't secure (Bhuasiri et al., 2016).

Concerns about security problems or alleged risks associated with using online filing systems impede their uptake. According to Ramoo (2006), the adoption and use of online filing are influenced by the perceived risk. The control of taxpayers' personal data in an online environment and their assessment of the system's usefulness and functionality are both considered aspects of the perceived risk (Ramoo, 2006). Taxpayers using the internet in this situation could worry about whether third parties can access their personal tax information without their knowledge or authorization (Geetha & Sekar, 2012).

The adoption of the system by potential users is impacted when it fails to achieve its goals owing to either technical problems or other factors. In this regard, Kamarulzaman and Azmi (2010) contend that taxpayers' voluntary adoption of the e-filing system will be impacted by the perceived risk they have with regard to the

system, which promises to complete their transaction securely and to safeguard the privacy of their personal information. Most taxpayers might not feel comfortable sharing this information with those who are not involved in their business (Ramoo, 2006). This is due to the security risk of being robbed it presents. To protect the privacy of personal data in this situation, the taxpayer may choose to complete the tax returns manually (Ssetuba, 2012).

## 2.3 Theoretical Framework

This section reviews the theories that explain the associations between digitization effectiveness and turnover tax compliance. The study explored on technology acceptance model (TAM) Theory, Unified Theory of Acceptance (UTAUT) and Use of Technology and Task Technology Fit (TTF) Theory as the essential theories of the study**.**

### 2.3.1 Technology Acceptance Model (TAM) Theory

According to Rondan-Catalua (2015), the purpose of TAM is to be able to explain user behavior across a wide range of end-user computing technologies and user groups and to identify the factors that influence general computer acceptance. The most significant and widely used theory for characterizing a person's acceptance of information technologies is known as the Technology Acceptance Model (TAM). In order to gauge how willing consumers are to adopt new technologies, researchers developed the Technology Acceptance Model (TAM). When a person has more of an interest in using a piece of technology, they are more likely to actually do so.

TAM states that the usefulness and usability of information technology are two views that affect adoption. It details the connections between attitudes toward computer use, perceived ease of use, perceived utility, and intention to use technology (Teo, 2011).

This model demonstrates how consumers' decisions regarding when and how to employ new technology are influenced by a variety of factors. Perceived utility and perceived ease-of-use are the two key components. Thus, perceived usefulness and perceived ease-of-use are the two elements that TAM claims determine user adoption of an information system. Together, these variables influence how people feel about using technology, which in turn influences their behavioral intentions before they actually utilize the system. The theory is relevant to this study since it tackles the idea of digital technology acceptability.

Users will make use of a certain technology if they believe it will offer beneficial results. This theory demonstrates the perception of digital tax users on the perceived usefulness, usability and issues that matter security. It demonstrates that for a digital system to be fully accepted and used by the users there is need to always ensure that the system is easy to use and users have accepted and perceive it to be useful to them. The theory backs up the link between taxpayer acceptance of technology and compliance with turnover taxes.

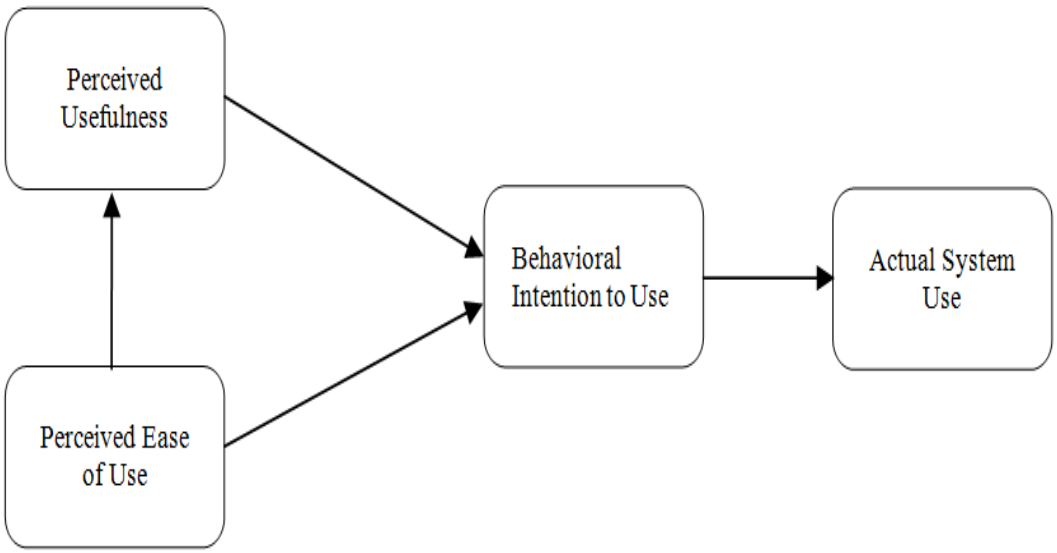


**Figure 2.1: Technology Acceptance Model**
**Source:** Davis F, Bagozzi P, & Warshaw R (1989).

### 2.3.2 Unified Theory of Acceptance and Use of Technology (UTAUT)

The most thorough model to forecast the adoption of information technology is the Unified Theory of Acceptance and Use of Technology. Venkatesh, Morris, Davis, and Davis (2003) developed UTAUT as a unified theory of user acceptance of technology, combining eight published acceptance models. These theories include: I Theory of Reason Action (TRA); (ii) Technology Acceptance Model (TAM); (iii) Motivational Model (MM); (iv) Theory of Planned Behavior (TPB); (v) Combined TAM and TPB (C-TAM-TPB); (vi) Model of PC (SCT).

Currently, the advancement of digital technology has a significant impact on consumers' daily activities. The advancement of technology has made work simpler and lighter. UTAUT offers a unified model for information system use with the goal of explaining user intentions. According to Williams Rana, Dwivedi, and Lal (2011), UTAUT was well-liked in the field of information, communication, and technology (ICT). According to UTAUT, the behavioral intention to use technology is directly influenced by three constructs: effort expectancy, performance expectancy, and social influence. The social influence construct gauges the weight that is given to outsiders' perceptions of how new technology should be used.

The present literature consistently links perceived danger and security. Users' intentions to utilize a system are influenced by how secure they believe it to be. UTAUT offer a theoretical justification for how perceived risk affects whether or not e-filing is accepted. Users are prone to shun a system if they believe it poses a significant risk, particularly in terms of security (Venkatesh, Thong & Xu, 2016). The data transmission mechanism to the Directorate General of Taxes is secure to preserve the privacy of business user information (Prawati & Dewi, 2018). The unified theory of acceptance and use of technology served as the foundation for this study's

perception of security (UTAUT). Therefore, tax system users are concerned about their privacy and security. This theory applies to the study since it outlines how taxpayers perceive security when using tax filing systems.

### 2.3.3 Task Technology Fit (TTF) Theory

The study by Goodhue and Thompson (1995) explains the connection between a user's work needs and a system's capability, as well as how these factors affect usage. Potential users will make will be more motivated will be to adopt it. The theory backs up the link between taxpayer acceptance of technology and compliance with turnover taxes. It shows that technology features and characteristics determine the adoption, acceptance and use by users. In this case, digital tax systems need to have functionalities and features that satisfy tax payers. The theory is relevant to this study because it offers a way to evaluate the link between the technology and the tasks the technology is used for in order to quantify the efficacy of technology in a system

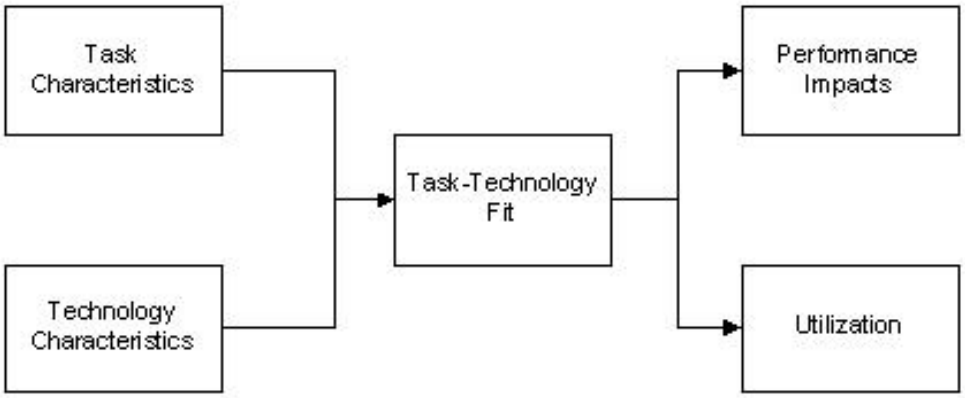


**Figure 2.2: Task Technology Fit**
**Source:** Goodhue and Thompson's (1995)

## 2.4 Empirical Review

### 2.4.1 Technological Ease of Use and Turn over Tax Compliance

In Malaysia, Ismail, Shaharuddin, Shahroni, Ibrahim, and Sani (2021) investigated how trust concerns and the usability of the e-filing system affected tax compliance in

the Big Data Analytics age. Utilizing online questionnaires, data is gathered. Analyses of 70 responders have been done. The findings indicate that taxpayers significantly trust electronic filing and have a favorable opinion of the system's usability. Big Data also affects how well taxpayers comply with tax laws. In the age of big data analytics, these insights are anticipated to help tax authorities organize their initiatives to promote taxpayer compliance. However, the study concentrated on perceived ease of use in Malaysia thereby presenting geographical gap.

In a related study, Mustapha and Obid (2015) looked at the mediating role that perceived usability played in the relationship between the caliber of tax services and Nigeria's online tax system. 206 survey responses in all were examined using structural equation modeling. The findings indicated that perceived ease of use significantly mediates the relationship between the quality of tax services and an online tax system and that there is a substantial positive relationship between these two variables. The study focused relationship between perceived ease and tax service qualities thereby presenting contextual gap.

In a district municipality in South Africa, Mongwaketse (2015) looked into how an electronic filing method was considered to affect tax compliance. 202 district taxpayers were given a questionnaire as part of the quantitative research methodology. Taxpayers' perceptions and outcomes are allegedly influenced by a number of variables, including cost-benefit analysis, attitude, perceived usefulness and usability, system legitimacy, and security. According to research, many tax administrations that have used e-filing have seen a decrease in the handling expenses of returns, a faster turnaround for processing and assessing returns, and an improvement in tax compliance. This study determined the effect of digitalization effectiveness on turnover tax compliance among SMEs in Eastleigh presenting a contextual gap.

Hendayana, Mulyadi, Reyta, and Halim (2021) investigated how tax compliance was impacted by and knowledge of Indonesian taxpayers with disabilities was enhanced by the use of e-filing technology. 85 samples were obtained from SMes in Bandung, West Java, who had impairments. They contend that all it takes is cutting-edge technology on a website that is user-friendly for people with disabilities. The data is processed using the partial least square method and using a quantitative approach. The results showed as much as 58.47% the existence of e-Filing enhance the tax knowledge of people with disabilities and non-significance impact the tax compliance. The study focused relationship between perception use of e-filling technology on knowledge thereby presenting contextual gap.

### 2.4.2 Technology Usefulness and Turn over Tax Compliance

Santhanamery and Ramayah (2018) looked at how perceived system usefulness affected the link between tax service quality (accuracy, response speed, and system assistance) and desire to continue using the Malaysian e-filing system. The findings demonstrated that perceived usefulness has a partial mediating effect on the association between tax service quality and the intention to continue using it, and that tax service quality (correctness), in particular, has a statistically significant positive association with that intention. It was discovered that the most significant indicator of intention to continue using something was perceived utility. The study focused on perceived usefulness and tax service quality thereby presenting contextual gap.

Mustapha (2013) conducted research on how technology elements (perceived usability and ease of use) affected an online tax system. In order to do this, a questionnaire was used, and the effects of each latent variable (perceived usefulness, perceived ease of use) on an online tax system were examined using exploratory factor analysis and confirmatory factor analysis. The outcome sheds light on how

technology influences an online tax system. The outcome demonstrates a direct link between technological aspects and an online tax system. The study concentrated on both perceived ease of use and perceived in an online system thereby presenting contextual gap.

Similar to Zaidi, Henderson, and Gupta (2017), they looked at how perceived utility affected their decision to adopt electronic filing. The outcomes demonstrated that perceived utility affected desire to use e-Filing. According to Agustina and Anim (2018), intention to use e-Filing was unaffected by perceived utility. Researchers' interviews with users revealed that their lack of socialization regarding the use and advantages of e-Filing was the root of the problem. However, research emphasized perceived utility and electronic filing. This study determined the effect of digitalization effectiveness on turnover tax compliance among SMEs in Eastleigh presenting a contextual gap.

Makanga (2010) looked at large taxpayer enterprises with a turn in excess of Ksh. 750 million as a case study for how technology adoption may be used strategically to improve tax compliance in Kenya. The goal of the study was to look into how technology affects big taxpayers' tax compliance. The analysis found that technology is essential for corporate growth in today's highly dynamic world. Either Large Taxpayers or KRA must employ contemporary technologies to increase the effectiveness of tax compliance. . However study focused on technology adoption and tax compliance among large taxpayer companies presenting a contextual gap.

Through the application of the Technology Acceptance Model, Sondakh's (2017) research sought to anticipate the behavior of the taxpayer's interest in utilizing the electronic tax returns (TAM). This study uses a sample of 156 taxpayers from Bitung

and Manado as the focus of its inquiry. The measurement model (measurement model) and the structural model, which are the two steps of structural equation modeling (SEM) modeling, were used to examine the data. According to the study, perceived usefulness had a favorable and significant impact on attitudes toward using e-SPT but had no discernible influence on behavioral intentions to do so. The behavioral intention to utilize e-SPT is positively and significantly impacted by attitude about e-SPT. However study utilized Structural Equation Modeling Data were analyzed thus presenting a methodological gap.

In an effort to understand the origins of E-SPT use (Annual Tax Return Electronic) and its effects on taxpayer compliance, Fatma, Syamsu, and Hidayatulloh (2019) conducted research. The participants in this study were all Indonesian taxpayers. Purposive sampling was the method of selection utilized in this study, and the only criterion used was the number of taxpayers who had used the E-SPT. The research's analysis method was partial least squares (WarpPLS). The factors that influence the use of E-SPT are perceived utility, perceived ease of use, and self-efficacy. Self-efficacy has an impact on perceived usability, whereas personal inventiveness and subjective norm have an impact on perceived usefulness. The usage of E-SPT increases taxpayer compliance, therefore as the number of E-SPT users rises, so will the revenue from state taxes. However study focused on perceived usefulness and self-efficacy in Indonesia presenting a contextual gap.

### 2.4.3 Perceived System Security mechanism and Turn over Tax Compliance

A survey was done by Tahar Riyadh, Sofyani, and Purnomo (2020) to determine the impact of perceived security on citizens' intentions to utilize electronic filing in Indonesia. The distribution of 150 questionnaires resulted in the processing and analysis of 126 of them. The findings showed that while perceived usefulness had no

effect on the use of e-Filing, perceived security and ease-of-use both had a positive impact. However the study focused on perceived security and use of e-Filing in Indonesia presenting a geographical gap.

Mujiyani and Wahyuningtyas (2019) looked at how perceived security affected the likelihood that they would use e-filing. The study found that users' willingness to adopt e-Filing was positively impacted by security. The security of the e-filing system guards the privacy of corporate user information. We can draw the conclusion that the higher the level of intention to use e-Filing, the more taxpayers believe the system to be secure. Users tended to avoid using e-filling because they believed it did not provide data security, according to Sinlairy Dewi and Susanti's research (2019). The ease and convenience with which business customers can use the e-filing system to report taxes without exerting additional effort speaks volumes about the system's quality. Because of the system's complexity or lack of trust in the website, many taxpayers are unwilling to use e-Filing.

In Kenya's Meru County, Muturi and Kiarie (2015) investigated how the online tax system affected small taxpayers' tax compliance. Three research hypotheses centered on online tax registration, online tax filing, and online tax payments were used to address this purpose. A review of earlier research projects was done. The study's variables were all covered by a structured questionnaire that was given to 60 randomly selected taxpayers in the Meru County Tax District. According to the study's findings, Meru County's small taxpayers' level of tax compliance is impacted by the online tax system. The study suggests that additional research be conducted to identify additional variables influencing small tax payers' tax compliance.

Ershaid (2021) did a research to examine the attitudes of value-added tax taxpayers regarding e-tax systems and their impact on tax compliance in Tabuk Region, Saudi

Arabia. The study was based on Theory of Reasoned Action with the integration of the following variables: acceptance of tax systems, tax compliance, and computer abilities. This study found that a favourable attitude has been displayed as well as an acceptance of e-applications by value-added taxpayers. In addition, this investigation demonstrated that there is compliance with this value-added tax. Furthermore, data also demonstrated that there is statistical relevance of technical computer abilities on adopting e-applications, taxpayers' attitudes, and their adoption of e-applications in compliance with value-added tax. Finally, data demonstrated that there is an effect of taxpayers' adoption of e-applications as a mediating variable on the relationship between the views of taxpayers towards e-applications and tax compliance. The study was based on Theory of Reasoned Action thus presenting conceptual gap.

## 2.5 Conceptual Framework

According to Mugenda's (2008) definition, a conceptual framework serving as the sole description of the phenomenon under study is followed by a visual and graphical representation of the key study variables. The diagram below shows the relationship between study variables. The following are independent variables; technological ease of use, technology usefulness and perceived system security mechanism. The dependent variable is turn over tax compliance.

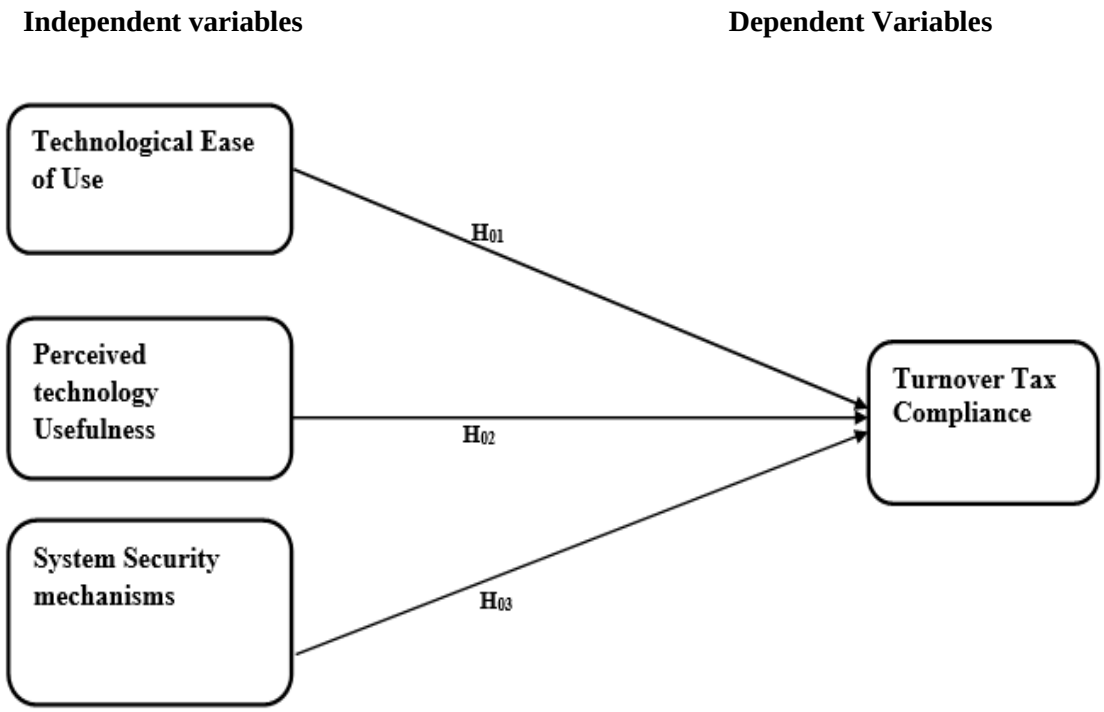


**Figure 2.3: Effect of Digitalization Effectiveness on Turnover Tax Compliance**
**Source:** Researcher (2022)

### 2.6 Critique of Literature Review

Numerous authors have explored on digitalization and turnover tax compliance. The impact of perceived utility on the intention to use e-Filing was studied by Rekayana in 2016 and Zaidi, Henderson and Gupta (2017). The outcomes demonstrated that perceived utility affected desire to use e-Filing. The perceived impacts of an electronic filing system on tax compliance were examined by Mongwaketse (2015). The findings showed that a number of variables, including cost-benefit analysis, attitude, perceived usefulness and usability, system credibility and security, are considered to have an impact on people's attitudes of taxpayers. Mujiyani and Wahyuningtyas (2019) looked at how perceived security affected the likelihood that they would use e-filing. The study found that users' willingness to adopt e-Filing was positively impacted by security. Mustapha and Obid (2015) investigated the

mediating role of perceived usability in the relationship between the caliber of tax services and the Nigerian online tax system. In terms of tax compliance, the majority of the previously conducted and analyzed research have a greater emphasis on all taxpayers. There hasn't been any research on the compliance with turnover tax among small and medium tax payers.

### 2.7 Summary of Literature Review and Research Gaps

A review of the existing literature on digitalization of tax administration and turnover tax compliance, a critical analysis of previous literature reveals many conceptual and contextual study gaps. KRA has implemented several initiatives to enhance tax compliance. The tax system's administrative capacity will be improved, taxpayers will be able to register and file taxes electronically, and services for taxpayers will be improved.. There is therefore, a gap in knowledge as to whether there is a relationship between digitalization of tax administration and turnover tax compliance. The summary of the research gaps is shown in Table 2.1.

**Table 2.1: Summary of Literature Review and Research Gaps**

| Author &Year | The focus of the study | Research Gap | Focus on the current study |
|---|---|---|---|
| Ismail, Shaharuddin, Shahroni, Ibrahim & Sani (2021) | Perceived ease of use of the e-filing system on tax compliance | The study focused on Perceived Ease of Use in Malaysia thereby presenting geographical gap. | This study focused on Perceived ease of use and turnover tax compliance among small and medium size enterprises |
| Mustapha and Obid (2015) | Perceived ease of use tax service quality | The study focused relationship between perceived ease and tax service qualities thereby presenting contextual gap. | This study focused on relationship between perceived ease of use and turnover tax compliance among small and medium size enterprises. |
| Mongwaketse (2015) | Perceived effects of an electronic filing system | The study focused on perceived effects of an electronic filing system on tax compliance presenting contextual gap. | This study focused on relationship between perceived ease of use and turnover tax compliance. |
| Santhanamery & Ramayah (2018) | Perceived usefulness and tax service quality | The study focused on mediating effect of perceived usefulness on the relationship between tax service qualities presenting contextual gap. | This study focused on perceived usefulness and turnover tax compliance among small and medium size enterprises |
| Mustapha (2013) | Technology factors on online tax system | The study focused on both perceived ease of use and perceived in an online system thereby presenting contextual gap. | This study focused on perceived usefulness and turnover tax compliance among small and medium size enterprises |
| Zaidi, Henderson & Gupta (2017) | Perceived usefulness on intention to use e-Filing | Study focused on Perceived usefulness challenges on intention to use e-Filing presenting contextual gap. | This study focused on perceived usefulness and turnover tax compliance among small and medium size enterprises |
| Tahar Riyadh, Sofyani &Purnomo (2020) | Perceived security on the citizen's intention to use e-Filing. | The study focused on perceived security and use of e-Filing presenting a geographical gap. | This study focused on perceived security risk and turnover tax compliance among small and medium size enterprises |
| Mujiyani & Wahyuningtyas (2019) | Perceived security toward intention to use e-Filing | The study focused on perceived security toward intention to use e-Filing presenting contextual gap. | This study focused on perceived security risk and turnover tax compliance among small and medium size enterprises |

**Source: Researcher (2022)**

# CHAPTER THREE

# RESEACH METHODOLOGY

## 3.1 Introduction

The research methodology used for the study is covered in this chapter. Additionally, it provides a thorough explanation of sampling techniques, tools, and procedures, as well as characteristics of the population that was used in the study. The appropriate data analysis method is then described.

## 3.2 Research Design

According to Creswell (2014), a research design is a strategy outlining how information will be gathered for an assessment or evaluation of a research study's objectives. This study employed an explanatory research design. Data collection for the purpose of providing an explanation for a phenomenon is known as explanatory research (Blatter & Haverland, 2012). With the use of this research methodology, a researcher can learn what works and what doesn't work, and once they have this knowledge, they can take action.

Gill and Johnson (2010) contend that prior to seeking a solution, it is appropriate to understand an issue and conduct an explanatory research. Explanatory research design was appropriate in this study since it’s aimed at collecting information from respondents on their attitudes, perception about itax system usage, particularly on technological ease of use, perceived technology usefulness and perceived system security and how it influences on the tax compliance in Eastleigh Kenya.

## 3.3 Target Population

The demographic of interest for this study were authorized textile SMEs operating in Nairobi County's Eastleigh. As indicated in table 3.1 below, there are six hundred and forty-four (620) textile businesses operating in Eastleigh, according Nairobi City

County (2021). Due to the area's high concentration of textile enterprises, which made it simpler for the researcher to obtain a representative sample and consume less time, this location was of particular attention for this study.

**Table 3.1: Textile SME, Target Population**

| Category of Textile SMEs | Population | Percentage |
|---|---|---|
| Adult & kids wear (clothes) | 423 | 68% |
| Curtains and interior designs | 107 | 17% |
| Blankets and specialized fabrics | 90 | 15% |
| **Total** | **620** | **100%** |

### 3.4 Sampling Process and Selection

Given the time and high cost of data collection and processing, it would not have been simple to locate all of the SMEs in Eastleigh because they were dispersed over a large geographic area inside Eastleigh. Therefore, sampling was the only method for reducing these difficulties. The population was divided into seven strata according to the industry that the study's stratified sampling approach was utilized in. The population was then sampled using a straightforward random sampling technique inside each stratum. In the study, proportionate stratified random sampling was employed to ensure that everyone in the population had an equal chance of being chosen.

### 3.5 Sample Size

In this study, stratified and purposive sampling techniques were adopted to sample the respondents. More so, the sample size for this study was determined using Yamane's (1973) formula which accurately represented the total 620 SMEs taxpayers. With an

assumption of a 95% confidence level and P = .5. This formula was used to calculate the sample size of 243 respondents for the study as follows:

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

Where:

$n$ = sample size,

$N$= population size, and

$e$ = Margin of error (MoE), e = 0.05

Thus:

$$n = \frac{620}{1 + 620(0.05)^2}$$

$$n = \frac{620}{1 + 620(0.0025)}$$

$$n = \frac{620}{1 + 1.55}$$

$$n = \frac{620}{2.55}$$

$$\boldsymbol{n = 243}$$

**Table 3.2: Category of SME, Sample Size**

| Category of textile SMEs | Population | Percentage | Sample Size |
|---|---|---|---|
| Adult & kids wear (clothes) | 423 | 68% | 166 |
| Curtains and interior designs | 107 | 17% | 42 |
| Blankets and specialized fabrics | 90 | 15% | 35 |
| **Total** | **620** | **100%** | **243** |

## 3.6 Data Collection

### 3.6.1 Data Collection Procedure

After the proposal was approved, data collection operations started. The organizations that were randomly selected received an introductory letter explaining the purpose of the survey and requesting permission to gather data. As most establishments in the study area were in close proximity to each other, the researcher could easily approach the respondents and hand them the questionnaires. After the project was approved, data collection procedures were started. The sampled entities received an introduction letter asking for their permission to get the respondents' data. Since the majority of the establishments in the study region were close to one another, the researcher gave the questionnaires directly to the respondents. The questionnaire was emailed to responders who couldn't fill it out in person.

### 3.6.2 Data Collection Instrument

The study used a self-made questionnaire as its major data collection tool. The researcher used a closed-ended questionnaire. The answers to the surveys contributed to a thorough study of the impact of digitization effectiveness on turnover tax compliance among textile small and medium size businesses in Eastleigh, Nairobi, Kenya. Likert scale questions were included in the questionnaire's design. It was split into two main portions, the first of which asked questions about the respondents' personal lives and their enterprises. With special reference to the research's variables, the second segment sought information on the impact of digitalization effectiveness on turnover tax compliance.

### 3.7 Pilot Study

A research study undertaken in advance of the intended study is called a pilot study (Polit, Beck & Hungler, 2001). Typically, pilot studies are carried out on a lower size than the original investigation. To make sure the data collection tool in this study is applicable and efficient, 10% of the sample size underwent pre-testing. This was done by distributing 25 questionnaires for pilot testing at Nairobi Kirinyaga Road. A questionnaire that was correctly filled out by randomly chosen respondents was used for the pilot testing. In order to account for response biasness, the participants in the piloting were not a part of the final study population.

#### 3.7.1 Validity of the Research Instrument

Through discussion with the supervisor and piloting, wherein subject responses were compared to the study's objectives, the content validity of the research instrument for this study was established. The information chosen and provided in the questionnaire must be pertinent to the variable being studied for a research instrument to be deemed valid. With ten turnover tax payers, the researcher conducted the pilot test at random.

#### 3.7.2 Reliability of Research Instrument

A test retest was conducted and a reliability coefficient calculated to assess the questionnaire's dependability as a research tool. This made it easier to determine the degree to which the questionnaire consistently produced the same responses. The study's reliability was evaluated using the Cronbach Alpha coefficient. Cronbach's alpha is a reliability coefficient that assesses the consistency of results across different items measuring the same variable.

**Table 3.3: Questionnaire Reliability**

| Category | N | Coefficient | Outcome |
|---|---|---|---|
| Technological Ease of Use and Turnover tax Compliance | 25 | .839 | Reliable |
| Technology Usefulness and Turnover tax Compliance | 25 | .915 | Reliable |
| Perceived System Security mechanism and Turnover tax Compliance | 25 | .923 | Reliable |
| Tax Compliance | 25 | .748 | Reliable |
| **Overall** | | **.916** | **Reliable** |

### 3.8 Data Analysis and Presentation

To maintain the number of respondents, the respondents' collected data was examined for completeness. The Statistical Package for Social Sciences (SPSS) software was used to conduct a descriptive analysis of the data. The data was summarized using frequencies and percentages, and the results were presented using tables and summary statistics. Where appropriate, the analysis used both descriptive and inferential tests. Descriptive statistics, which aid in accurately summarizing the distribution of responses, were used to characterize and summarize the data. These statistics included mean and frequency distributions, standard deviation, and percentages.

Regression analysis and correlation analysis were just two of the inferential statistics utilized to infer features of the population from the sample. To establish correlations between variables, Pearson's correlation coefficient was applied. Utilizing the three independent factors in the study—the usability of the technology, its usability in the study, and the system security mechanism—a linear regression model was utilized to forecast turnover tax compliance. Below is a diagram of the regression model that will be tested:

$$Y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\varepsilon$$

Where;

Y= Turnover Tax Compliance

$\beta_0$= constant

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

$X_1$= Technological Ease of Use

$X_2$ = Technology Usefulness

$X_3$= System Security mechanism

$\varepsilon$ = error term

### 3.9 Assumptions of the Study

Before running the regression, the researcher did a number of diagnostic tests to check for violation of the assumptions of the classical linear regression. These tests included Linearlity, Normality, Multi-collinearity and Heteroscedasticity tests.

#### 3.9.1 Normality Test

A normality test is performed to establish if a sample represents a population with a normal distribution. Estimates based on data that are not normally distributed result in inaccurate chi-square, t, and F test findings (Razali & Wah, 2011). When a variable's functional form is incorrect, the distribution is non-normal. To verify normalcy, the Kolmogorov-Smirnov (KS) Test will be applied.

#### 3.9.2 Multicollinearity

Multicollinearity is stated to exist when there is a high degree of linear relationship between two or more independent variables in the model, meaning that one or more of the independent variables may accurately predict the value of another variable. Any little change in the explanatory variables in the presence of multicollinearity may cause the coefficients calculated by the multiple regression models to fluctuate unpredictably. Multicollinearity impacts the individual predictors but does not affect

the model's dependability. The presence of multicollinearity in the model was examined using Variance Inflation Factors (VIF) and Tolerance tests. Hossain (2012) states that a model is deemed to have multicollinearity difficulties when the VIF is greater than 10 and the tolerance are less than 0.2. Little to no association is indicated by a VIF value of 1 to 5.

### 3.9.3 Heteroscedasticity

When the disturbances in the regression model have similar variances, heteroscedasticity is considered to be present (Gujarati, 2003). Unbiased estimations of the correlation between the dependent and independent variables are produced by the model's heteroscedasticity. The conclusions and standard errors, nevertheless, might not be correct. The conclusions and standard errors, nevertheless, might not be correct. Heteroscedasticity will be examined using the White Test. The White-Test is a test of homoscedasticity's null hypothesis against the heteroscedasticity of an unidentified form (Econometrics Views, 2017).

## 3.10 Ethical Considerations

Ethical consideration was put in place during the entire study process to ensure integrity and objectivity of researcher, respect of respondent, avoidance of harm to the respondent, volunteerism and right to withdraw through obtaining informed consent form the respondent, explaining the study to the respondent and maintaining anonymity. To guarantee anonymity, the participants were assured by the researcher that any information they gave during this study would be treated with the greatest secrecy and used only for educational reasons.

To guarantee privacy, the researcher kept the filled questionnaires in a safe place and had limited access to the data documents to just those directly participating in the

study. To maintain anonymity, participants were asked not to provide any personal information or names while filling out the questionnaire that was utilized in this research. The researcher sought approval from university Ethics Review Board. Granted the approval, the researcher applied for a research permit license from the National Commission for Science, Technology, and Innovation (NACOSTI) for the validity of the study. Upon obtaining the research license permit the research sought approval to conduct data collection for relevant approvals.

**Table 3.4: Measurement of Variables**

| Type of Variable | Specific Measurements | Measuring Scale | Questionnaire Part | Type of Analysis |
|---|---|---|---|---|
| **Independent** Technological Ease of Use | • Real time access to tax information<br>• Simplicity in reckoning of taxes | Ordinal/ Likert Type Scale | B | Descriptive & Inferential analysis |
| **Independent** Technology Usefulness | • Enhanced work performance<br>• Enhanced tax returns filing | Ordinal/ Likert Type Scale | C | Descriptive & Inferential analysis |
| **Independent** System Security mechanism | • Data Security<br>• Confidentiality | Ordinal/ Likert Type Scale | D | Descriptive & Inferential analysis |
| **Dependent** Turnover Tax Compliance | • Timely payment of taxes<br>• Timely filing of tax returns | Ordinal/ Likert Type Scale | E | Descriptive & Inferential analysis |

# CHAPTER FOUR

# RESULTS AND DISCUSSION

## 4.1 Introduction

This chapter is focused on presenting the data analysis, interpretation and presentation of the analyzed study results. The objective was to present the obtained data results for the effect of digitalization effectiveness on turnover tax compliance among textile small and medium size enterprises in Eastleigh.

## 4.2 Response Rate

The sample size of the study was 242 respondents that were furnished with the study questionnaire, and only 171 questionnaires were used in the study analysis because they were completely filled, and did not have any errors. This signified that the study achieved a 70.4% response rate. Creswell (2014) opines that any response rate above the 50% threshold is thought to be valid, indicating that the study exceeded this threshold as provided in Figure 4.1.

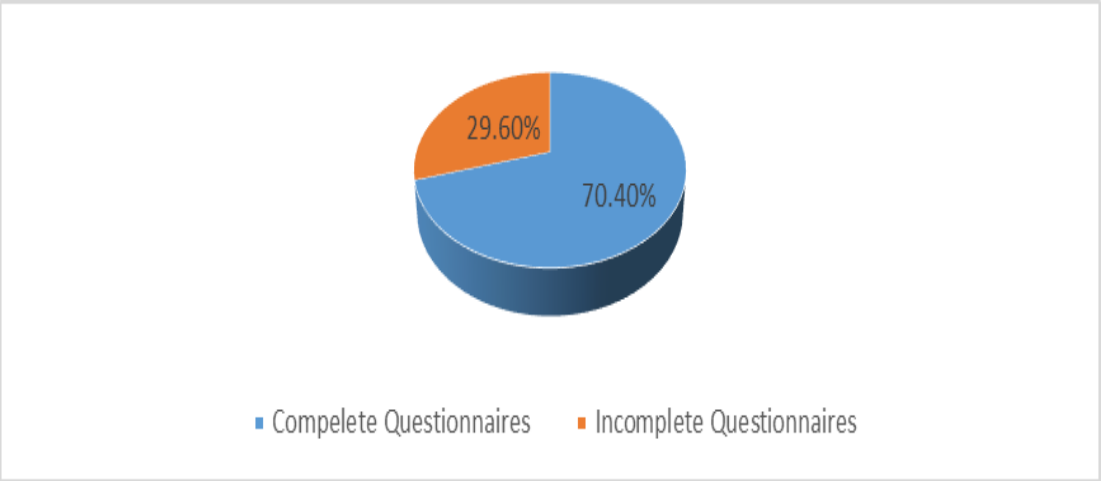


**Figure 4.1: Response Rate**
**Source: Research Data (2022)**

## 4.3 Demographic Information

### 4.3.1 Gender

Figure 4.2 provides the obtained study results for the gender representation of the respondents. It shows that 68% were male and 32% were female. This denotes that most of the owners or managers of textile small and medium size enterprises in Eastleigh were male, which could be attested to the type of work.

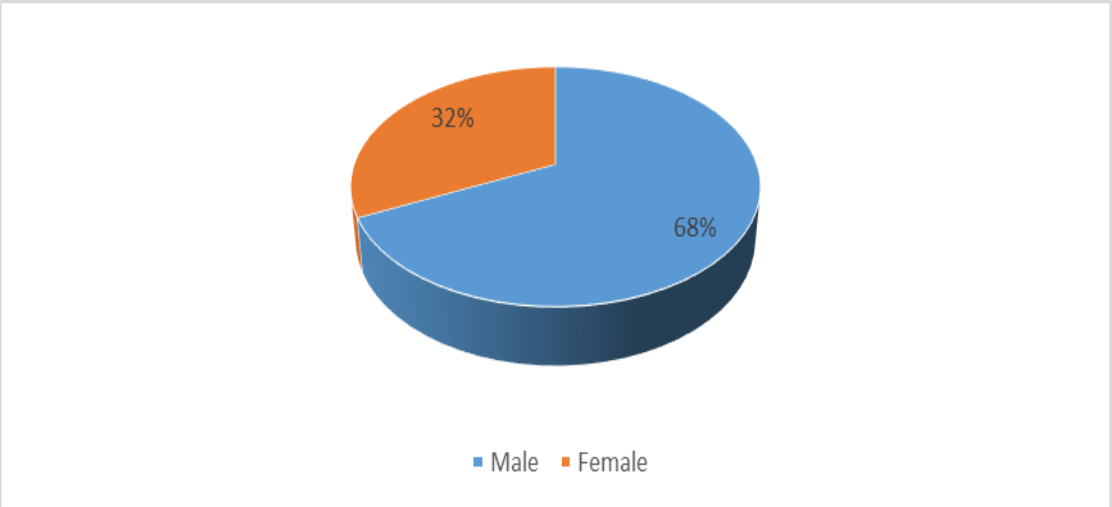


**Figure 4.2: Gender**
**Source: Research Data (2022)**

### 4.3.2 Level of Education

Figure 4.3 provides the obtained study results for the level of education that had been attained by the study respondents. It shows that 39% had certificates, 30% had undergraduate degrees, 20% had diplomas, and 11% had masters' degrees. This denotes that all of the owners or managers of small and medium size enterprises in Eastleigh were well educated.

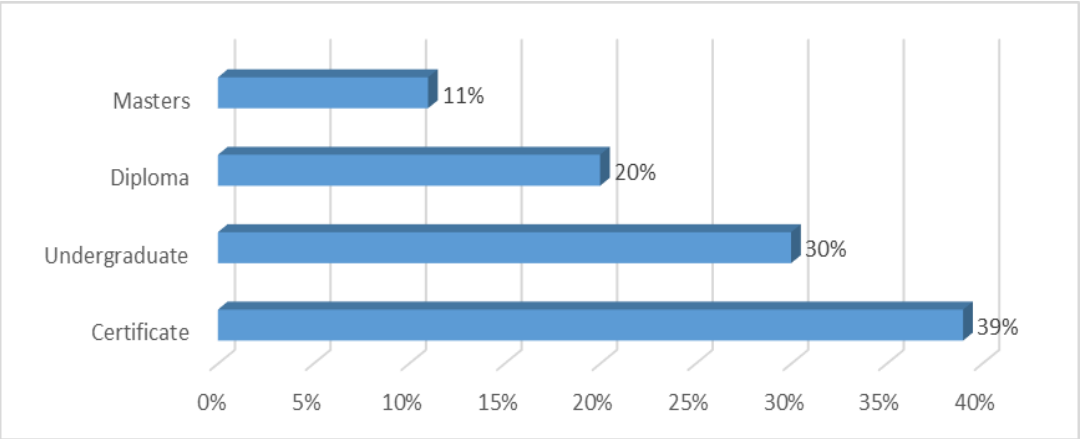


**Figure 4.3: Level of Education**
**Source: Research Data (2022)**

### 4.3.3 Use of Information Technology systems

The study sought to determine the duration that respondents have used IT systems. Figure 4.4 provides the duration in years by which the study respondents had been using IT technology. It shows that 40% had been using IT technology for 4-6 years, 20% for 7-9 years, 19% had been using IT for 1-3 years, 11% for below 1 year, and 10% for over 10 years. This denotes that most of the owners or managers of small and medium size enterprises in Eastleigh had been using IT technologies for over 3 years.

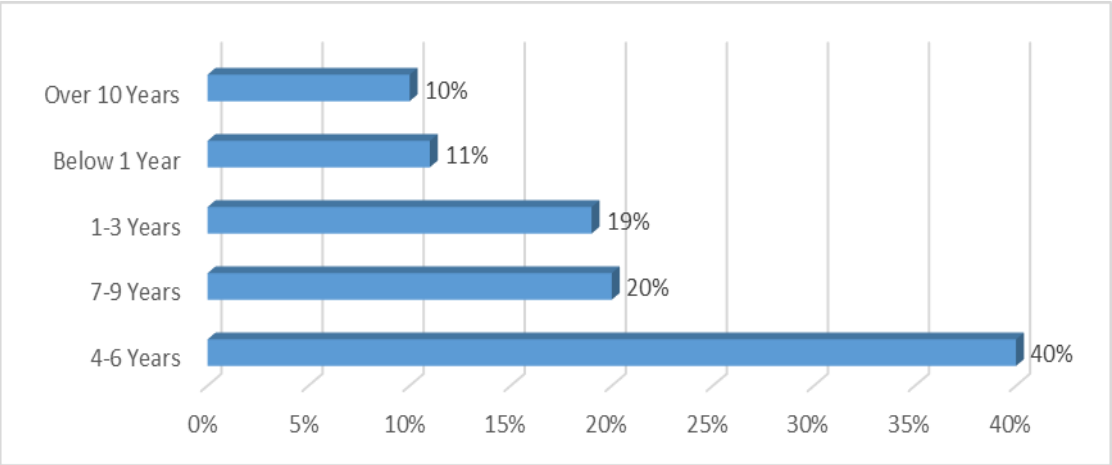


**Figure 4.4: Information Technology Usage**
**Source: Research Data (2022)**

### 4.3.4 Electronic Tax system Usage

This study sought to establish the duration that respondents have used e-tax system. Figure 4.5 provides the duration in years by which the study respondents had been using e-tax system. It shows that 40% had been using e-tax systems for 3-4 years, 31% for 1-2 years, 19% had been using e-tax systems for 5-6 years, and 10% for over 6 years. This denotes that most of the owners or managers of textile small and medium size enterprises in Eastleigh had been using tax IT technologies for over 2 years.

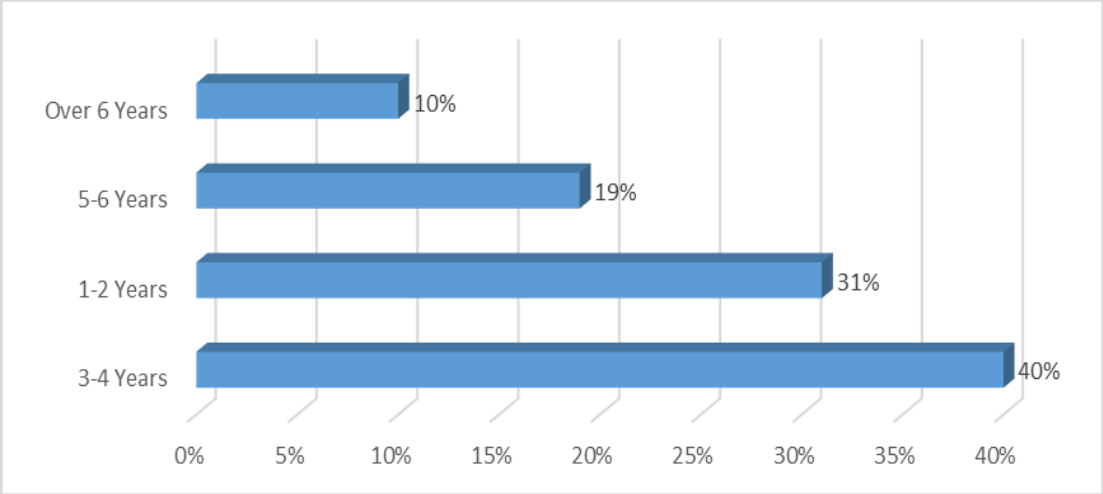


**Figure 4.5: Tax Information Technology Usage**
Source: Research Data (2022)

## 4.4 Assumptions of Linear Regression Analysis

### 4.4.1 Normality Test

Normality test was carried out using the Kolmogorov-Smirnov and Shapiro-Wilk coefficient. The findings showed that the data was normally distributed, all the p-values for all the variables were greater than 0.05 (p-value >0.05) as illustrated in table 4.1 below.

**Table 4.1: Normality Test**

| | Kolmogorov-Smirnov | | | Shapiro-Wilk | | |
|---|---|---|---|---|---|---|
| | Statistic | df | Sig. | Statistic | df | Sig. |
| Technological Ease of Use | .202 | 171 | .200* | .936 | 171 | .505 |
| Technology usefulness | .177 | 171 | .200* | .893 | 171 | .184 |
| System security mechanism | .204 | 171 | .200* | 0.925 | 171 | .362 |

Source: Research Data (2022)

### 4.4.2 Linearity Test

In order to make valid inferences from a regression test, the residuals of the regression should follow a normal distribution. Table 4.2 provides the obtained results for the linearity analysis test that was conducted between perceived ease of use and turnover tax compliance. The obtained Analysis of Variance (ANOVA) for deviation from linearity indicates that the study variables; technological ease of use, technology usefulness and system security mechanisms were linearly related with coefficients 0.069, $p>0.05$; 0.077, $p>0.05$ and 0.062, $p>0.05$ respectively.

**Table 4.2: Linearity Test**

| | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| Tax Compliance * Technological ease of use | (Combined) | 17.529 | 22 | .797 | 2.776 | .000 |
| | Linearity | 8.170 | 1 | 8.170 | 28.470 | .000 |
| | Deviation from Linearity | 9.359 | 21 | .446 | 1.553 | .069 |
| | | 42.471 | 148 | .287 | | |
| | | 59.999 | 170 | | | |
| Tax Compliance * Technology usefulness | (Combined) | 25.464 | 26 | 4.084 | | .000 |
| | Linearity | 16.544 | 1 | 68.544 | | .000 |
| | Deviation from Linearity | 8.920 | 25 | 1.488 | | .077 |
| | | 34.535 | 144 | | | |
| | | 59.999 | 170 | | | |
| Tax Compliance * system Security | (Combined) | 23.880 | 22 | 1.085 | 4.448 | .000 |
| | Linearity | 14.570 | 1 | 14.570 | 59.701 | .000 |
| | Deviation from Linearity | 9.310 | 21 | .443 | 1.817 | .062 |
| | | 36.119 | 148 | .244 | | |
| | | 59.999 | 170 | | | |

Source: Research Data (2022)

### 4.4.3 Multicollinearity Test

In a regression model, multicollinearity occurs when there is a perfect linear relationship between multiple predictor variables. Coefficients affected by multicollinearity are notoriously difficult to evaluate accurately. The obtained Variance of Inflation Factor (VIF) output were 1.460, 2.843 and 2.995 for technological ease of use, technology usefulness and system security mechanism respectively as shown in table 4.3. This shows that multicollinearity symptoms were not present between perceived study variables and turnover tax compliance data.

**Table 4.3: Multicollinearity Test**

| Model | Collinearity Statistics | |
|---|---|---|
| | **Tolerance** | **VIF** |
| Technological Ease of Use | .685 | 1.460 |
| Technology usefulness | .352 | 2.843 |
| System security mechanism | .334 | 2.995 |

a. Dependent Variable: Tax Compliance

**Source: Research Data (2022)**

### 4.4.4 Heteroscedasticity test

One of linear regression's other basic assumptions is that there is a constant variance in the residuals across all levels of the predictor. However, when heteroscedasticity is present, the reliability of the regression is compromised. The resulting scatterplot shows that the spots are dispersed and do not follow any particular pattern. Therefore, there is no evidence of heteroscedasticity in the regression model.

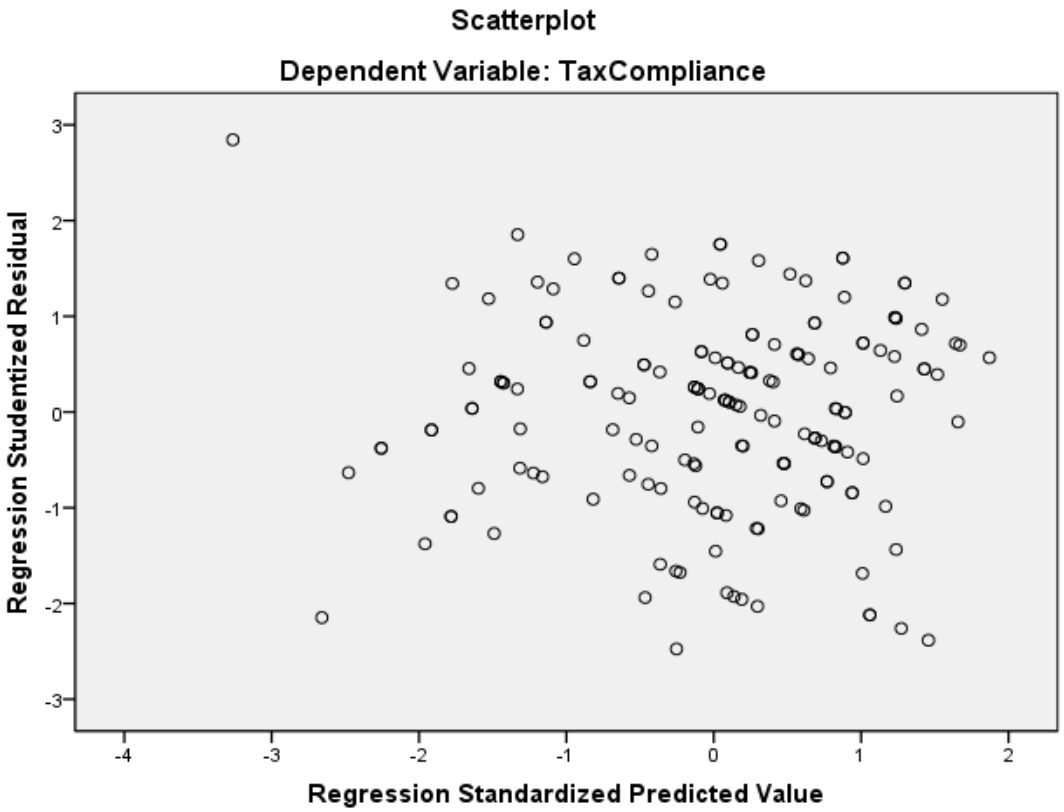


**Figure 4.5: Heteroscedasticity test**

**Source: Research Data (2022)**

## 4.5 Descriptive Analysis

### 4.5.1 Technological Ease of Use and Turnover Tax Compliance

For the effect of technological ease of use and turnover tax compliance, descriptive analysis was applied to evaluate the provided statements. Frequencies, means and standard deviations were applied to measure the results as shown in Table 4.4 below. The study findings showed that majority of the owners or managers of small and medium size textile enterprises in Eastleigh were in agreement that they have become tax compliant because of the ease of use of i-tax technology platform (Mean=4.04, Standard Deviation=0.993).

**Table 4.4: Technology Ease of Use and Turnover Tax Compliance**

| | SD | D | N | A | SA | Mean | Std |
|---|---|---|---|---|---|---|---|
| | % | % | % | % | % | | Dev |
| Technology has removed the effort for me to become compliant | 4.1 | 4.7 | 13.5 | 42.7 | 35.1 | 4.00 | 1.023 |
| I am open to accept new technology that will enable me become compliant | 1.8 | 11.1 | 11.7 | 48 | 27.5 | 3.88 | .993 |
| I make use of i-tax return filing platform to remain compliant | 1.8 | 13.5 | 22.2 | 42.7 | 19.9 | 3.65 | 1.002 |
| I always use available technology to file my tax returns | 1.2 | 3.5 | 21.1 | 39.8 | 34.5 | 4.03 | .897 |
| The technology that is available is accurate enough to facilitate my tax filing | 1.8 | 10.5 | 14.6 | 40.4 | 32.7 | 3.92 | 1.026 |
| KRA officers are always available to assist with i-tax challenges/ problems | 3.5 | 9.9 | 24 | 32.2 | 30.4 | 3.76 | 1.099 |
| KRA i-tax services are easy to use | 1.2 | 6.4 | 27.5 | 32.7 | 32.2 | 3.88 | .975 |
| I like using the i-tax platform to file my returns | 1.2 | 11.1 | 29.2 | 34.5 | 24 | 3.69 | .996 |
| I have become tax compliant because of the i-tax technology platform | 2.3 | 5.8 | 15.8 | 38 | 38 | 4.04 | .993 |

**Source: Research Data (2022)**

### 4.5.2 Technology Usefulness and Turnover Tax Compliance

For the effect of technology usefulness and turnover tax compliance, descriptive analysis was applied to evaluate the provided statements. Frequencies, means and standard deviations were applied to measure the results as shown in Table 4.5. The study findings showed that majority of the owners or managers of small and medium size textile enterprises in Eastleigh were in agreement that online tax filing systems had increased their intention to file taxes, thus have a perceived usefulness (Mean=4.11, Standard Deviation=1.006).

**Table 4.5: Technology Usefulness and Turnover Tax Compliance**

| | SD | D | N | A | SA | Mean | Std |
|---|---|---|---|---|---|---|---|
| | % | % | % | % | % | | Dev |
| I believe that technology can assist me in becoming compliant | 2.9 | 7.6 | 18.1 | 53.2 | 18.1 | 3.76 | .937 |
| Technology has made my tax filing become more effective | 1.2 | 10.5 | 13.5 | 38.6 | 36.3 | 3.98 | 1.014 |
| Technology has improved my tax compliance level | 2.9 | 7.6 | 26.3 | 22.8 | 40.4 | 3.90 | 1.110 |
| Technology has increased my convenience of filing my tax returns | 4.1 | 17 | 28.7 | 25.1 | 25.1 | 3.50 | 1.160 |
| The online tax filing system is very useful to my compliance | 1.2 | 11.1 | 25.1 | 32.2 | 30.4 | 3.80 | 1.034 |
| The online tax filing system as supporting technologies that make it easy for me to file my returns | 5.8 | 24 | 25.1 | 29.8 | 15.2 | 3.25 | 1.152 |
| Online tax filing systems have increased my intention to file my taxes | 0.6 | 9.9 | 12.3 | 32.7 | 44.4 | 4.11 | 1.006 |
| KRA's online tax filing platform is very functional | 0.6 | 9.4 | 16.4 | 39.8 | 33.9 | 3.97 | .967 |
| I have found the i-tax platform to be very useful | 0.6 | 9.9 | 17.5 | 40.9 | 31 | 3.92 | .967 |

**Source: Research Data (2022)**

### 4.5.3 System Security mechanism and Turnover Tax Compliance

For the effect of system security mechanism and turnover tax compliance, descriptive analysis was applied to evaluate the provided statements. Frequencies, means and standard deviations were applied to measure the results as shown in Table 4.6. The study findings showed that majority of the owners or managers of small and medium size textile enterprises in Eastleigh were in agreement that they believe that the system security mechanisms on i-tax platform can protect their information from unauthorized access (Mean=4.25, Standard Deviation=0.975). This has improved trust of SMEs on using digital systems while filing taxes.

**Table 4.6: System security mechanism and Turnover Tax Compliance**

| | SD | D | N | A | SA | Mean | Std |
|---|---|---|---|---|---|---|---|
| | % | % | % | % | % | | Dev |
| I believe my tax records on the online platform are safe | 0.6 | 10.5 | 14.6 | 31 | 43.3 | 4.06 | 1.027 |
| I believe that the information security system on i-tax platform can protect it from unauthorized access | 0.6 | 8.8 | 8.2 | 30.4 | 52 | 4.25 | .975 |
| E-filing of my tax returns guarantees my data security | 0.6 | 8.8 | 9.4 | 35.1 | 46.2 | 4.18 | .966 |
| The e-filing system has security to protect confidentiality of my data | 0.6 | 7 | 11.1 | 45 | 36.3 | 4.09 | .896 |
| I use online filing system because of the accuracy that the platform provides | 2.3 | 13.5 | 15.8 | 35.7 | 32.7 | 3.83 | 1.101 |
| The KRA online tax system performs as expected | 0.6 | 9.9 | 10.5 | 40.9 | 38 | 4.06 | .968 |
| I am concerned about the network disruption that frequently occur leading to payment delays and incurring of fines | 0.6 | 10.5 | 10.5 | 39.8 | 38.6 | 4.05 | .984 |
| I have confidence in the security measures applied by KRA on their online system | 2.3 | 8.2 | 9.9 | 52.6 | 26.9 | 3.94 | .953 |
| I use online tax filing because I trust the system | 1.8 | 10.5 | 8.8 | 43.9 | 35.1 | 4.00 | 1.012 |

**Source: Research Data (2022**

## 4.6 Correlation Analysis between digitalization effectiveness and Turnover Tax Compliance

Correlation test was carried out to determine the kind of relationship that exists between study variables. The findings showed that there was moderate positive significant relationship between technological ease of use, technology usefulness, system security mechanism and turnover tax compliance, as is indicated by the following parameters (Pearson's r=0.369, p<0.000), (Pearson's r=0.525, p<0.000) and (Pearson's r=0.493, p<0.000) respectively. This can be concluded that there is an

existing association between digitalization effectiveness and turnover tax compliance among small and medium size textile enterprises as shown in table 4.7 below.

**Table 4.7: Correlation matrix**

| | | Tax Compliance | Technological ease of use | Technology usefulness | System Security mechanism |
|---|---|---|---|---|---|
| Tax Compliance | Pearson Correlation | 1 | | | |
| | Sig. (2-tailed) | | | | |
| | N | 171 | | | |
| Technological ease of use | Pearson Correlation | .369** | 1 | | |
| | Sig. (2-tailed) | .000 | | | |
| | N | 171 | 171 | | |
| Technology usefulness | Pearson Correlation | .525** | .513** | 1 | |
| | Sig. (2-tailed) | .000 | .000 | | |
| | N | 171 | 171 | 171 | |
| System Security mechanism | Pearson Correlation | .493** | .548** | .800** | 1 |
| | Sig. (2-tailed) | .000 | .000 | .000 | |
| | N | 171 | 171 | 171 | 171 |

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

**Source: Research Data (2022)**

## 4.7 Linear Regression Analysis between Digitalization effectiveness and Turnover Tax Compliance

To assess the effect of digitalization effectiveness on turnover tax compliance, regression test was carried out. The regression results were as follows:

### 4.7.1 Model Summary

The regression model summary that was conducted between digitalization effectiveness factors (technological ease of use, technology usefulness, and system security mechanism) and turnover tax compliance. The adjusted $R^2$ value (0.285) indicates that digitalization of tax administration factors (technological ease of use,

technology usefulness, and system security mechanism) account for 28.5% of the variance in turnover tax compliance of small and medium size textile enterprises in Eastleigh as elaborated in table 4.8 below.

**Table 4.8: Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .546[a] | .298 | .285 | .50222 |

a. Predictors: (Constant), Technological ease of Use, Technology usefulness, System security mechanism

**Source: Research Data (2022)**

### 4.7.2 Regression ANOVA

The obtained results for the ANOVA that was conducted between digitalization effectiveness factors (technological ease of use, technology usefulness, and system security mechanism) and turnover tax compliance. The obtained ANOVA output $F$ = 23.628, $p$ =.0000, p<0.05) shows that there existed a statistical linear relationship between digitalization of effectiveness factors (technological ease of use, technology usefulness, and system security mechanism) and turnover tax compliance of small and medium size textile enterprises in Eastleigh as shown in table 4.9 below.

**Table 4.9: Regression ANOVA**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 17.878 | 3 | 5.959 | 23.628 | .000[b] |
| | Residual | 42.121 | 167 | .252 | | |
| | Total | 59.999 | 170 | | | |

a. Predictors: (Constant), Technological ease of Use, Technology usefulness, System security mechanism

b. Dependent Variable: Tax Compliance

**Source: Research Data (2022)**

### 4.7.3 Regression Coefficients

The obtained results below for the regression coefficient that was conducted between digitalization effectiveness factors (technological ease of use, technology usefulness, and system security mechanism) and turnover tax compliance. The obtained regression coefficient (β = .098, t (171) = 1.343, p>.05) shows that technological ease of use when combined influenced turnover tax compliance, where a single unit improvement in technological ease of use improved turnover tax compliance of small and medium size textile enterprises in Eastleigh statistically by 9.8%. Similarly, the obtained regression coefficient (β = .311, t (171) = 3.126, p<.05) shows that technology usefulness when combined influenced turnover tax compliance, where a single unit improvement in technology usefulness improved turnover tax compliance of small and medium size enterprises in Eastleigh statistically by 31.1%. Lastly, the obtained regression coefficient (β = .129, t (171) = 151, p>.05) shows that system security mechanism when combined influenced turnover tax compliance, where a single unit improvement in system security mechanism improved turnover tax compliance of small and medium size textile enterprises in Eastleigh statistically by 12.9%.

**Table 4.10: Regression Coefficients between Digitalization effectiveness and Turnover Tax Compliance**

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| 1 (Constant) | 1.83 | .266 | | 6.884 | .000 |
| Technological Ease of use | .098 | .073 | .105 | 1.343 | .181 |
| Technology Usefulness | .311 | .099 | .342 | 3.126 | .002 |
| System Security mechanism | .129 | .090 | .162 | 1.442 | .151 |

a. Dependent Variable: Tax Compliance

**Source: Research Data (2022)**

### 4.7.4 Hypotheses Testing

The first null hypothesis ($H0_1$) that stated technological ease of use has no significant relationship with turnover tax compliance among small and medium size textile enterprises was accepted. This implied that technological ease of use did not have a significant relationship with turnover tax compliance among small and medium size textile enterprises in Eastleigh.

The second null hypothesis ($H0_2$) that stated technology usefulness has no significant relationship with turnover tax compliance among small and medium size textile enterprises was rejected. This implied that technology usefulness has a significant relationship with turnover tax compliance among small and medium size textile enterprises in Eastleigh.

The third null hypothesis ($H0_3$) that stated system security mechanism has no significant relationship with turnover tax compliance among small and medium size textile enterprises was accepted. This implied that system security mechanism did not have a significant relationship with turnover tax compliance among small and medium size textile enterprises in Eastleigh as shown in table 4.11.

**Table 4.11: Hypotheses Test and Results**

| No: | Hypothesis | P-Value | Decision |
|---|---|---|---|
| **$H0_1$** | Technological ease of use has no significant relationship with turnover tax compliance among textile small and medium size enterprises | .181>0.05 | Accept |
| **$H0_2$** | Technology usefulness has no significant relationship with turnover tax compliance among textile small and medium size enterprises | .002<0.05 | Reject |
| **$H0_3$** | System security mechanism has no significant relationship with turnover tax compliance among textile small and medium size enterprises | .151>0.05 | Accept |

## 4.8 Discussion of the key Findings

### 4.8.1 Technological Ease of Use and Turnover Tax Compliance

This study established that technological ease of use has no influence on turnover tax compliance. This is consistent with Tan and Foo (2012) who found that even if a user has a positive impression of e-filing, their intention to use it may be hindered by their sense of the risks involved. The fact that the e-filing system does not add any more work or hassle for the corporate user while filing taxes is indicative of the system's high quality. However, it is important to note that technology has removed the effort for merchants to become compliant. This is also supported by Muturi and Kiarie (2015) who aver that the presence of online tax system has been fundamental in enhancing tax compliance among taxpayers in that they find the system easy to sue as compared to the traditional methods of filling which were tedious.

Merchants were open to accept new technology that enabled them become compliant. Desmayanti (2012) asserts that determining IT readiness mostly depends on the preparedness of the technology itself as well as the users of the technology. The degree to which a person can accept new technology without having any reservations

about adopting it is referred to as individual readiness. The topic of adoption dominates the corpus of information on electronic tax filing. This is consistent with Night and Bananuka (2019) who affirm the adoption of technology by the tax administrations has resulted to an increase in tax compliance levels among the taxpayers especially those in the informal sector.

Merchants made use of i-tax return filing platform to remain compliant. This is supported by Wang (2002) who found that ease of use was a better predictor of whether or not people planned to e-file than perceived usefulness. When a filing system is not complex the users are able to file their returns with ease thus making them to be in apposition of making their tax retains in time thus being complainant. Ritsatos, in Setiawan and Kurniawan (2018), says that the opinion is that the perceived ease of use can increase taxpayer compliance. If a filing system is easy to use, the number of people who use it will be high. So, making it easier for taxpayers to use technology systems can make them more likely to follow the rules.

Small and Medium Enterprises owners and managers always used available technology to file their tax returns. This obtained outcome differs with Aziz (2015) who says that most people don't use e-filing for their taxes, even though the technology is available and getting better. Availability of technology systems and such as mobile phones, computers, pads etc has enabled the SMES to easily file their returns on time as compared to the tradition methods of system where technology was not used and only hardcopy form of filing that was acceptable. So, users need to learn as soon as possible what makes tax e-Filing acceptable. Koong et al. (2019) are on the view that that focus on availability of technology in taxation is effective because technology usage is one of the most important ways to measure how well an innovation is working.

The technology that was available was accurate enough to facilitate tax filing. This is supported by Muhammad (2011) who says that the readiness of technology means that there are enough and already-existing software tools on these technologies so that they can process data quickly and correctly. The issue of technology readiness is very important because tax authorities around the world are slowly adopting the idea of e-government through e-tax services. Tahar, Sofyani and Purnomo (2020) opine that tax filing system eliminates mistakes during filing since the steps of filing are usually well elaborated and thus enhancing accuracy levels during tax filing. Online tax filing is available due to the difficulty and inconvenience of the traditional tax payment process.

Kenya Revenue Authority officers were always available to assist with i-tax challenges/ problems. This obtained outcome concurs with Muhammad (2011), a taxpayer who is having difficulty utilizing the e-tax services can seek a tax officer for assistance if they are encountering difficulties. When it comes to offering acceptable e-tax service to taxpayers, the interpersonal skills of the tax officers, as well as their technological competence, will be essential components. According to Tahar, Sofyani and Purnomo (2020) despite advances in technology, citizens have only minimally adopted e-Filing for their tax returns. Therefore, it is crucial to learn what factors affect taxpayers' willingness to use tax e-Filing.

### 4.8.2 Technology Usefulness and Turnover Tax Compliance

From this study, Small and Medium Enterprises owners and managers believe that technology usefulness assist them in becoming compliant. This obtained conclusion is consistent with Prasetya and Putra's (2020) assertion that perceived usefulness is a belief in a technical system's utility. Productivity, effectiveness, and overall benefit are used to gauge perceived usefulness. The extent of taxpayer compliance can be impacted by the use of technology solutions. The user's choice to employ a technology system depends on their perception of its usefulness.

Technology had made their tax filing become more effective. This result is consistent with Lu et al. (2010), who contend that a higher level of perceived utility from an online tax filing system would lead people to believe that the technology can improve the efficiency and convenience of tax filing. On the other hand, the ease and speed that an online filing system offers will raise taxpayers' perceptions of the effectiveness of tax filing. Shukla and Kumar (2019) found that there are a number of ways in which tax administrations might take advantage of new technologies to streamline the tax payment process. Governments can collect taxes more effectively and fairly with the help of new technologies, but these advancements are only worthwhile if accompanied by investments in people and infrastructure.

Technology had improved the SMEs owners and managers tax compliance level. This outcome agrees with Setiawan and Kurniawan (2018), who avers that users' attitudes will improve if they believe the online tax filing method is more useful. It demonstrates that the amount of taxpayer compliance is positively impacted by how useful people view utilizing the e-filing system to be. This is consistent with Mukuwa and Phiri (2019) who affirm that the use of e-services has increased tax revenue by facilitating greater SME compliance.

Technology had increased SMEs owners and managers convenience of filing their tax returns. This obtained outcome concurs with Lu *et al*. (2010) who suggest that the greater degree of perceived utility of an online tax filing system would lead taxpayers to believe that the system could improve the speed and convenience of filing taxes. On the other hand, the ease and speed that an online filing system offers will raise taxpayers' perceptions of the effectiveness of tax filing. Kamarulzaman, and Azmi (2010) technology has grown to be a crucial and very significant component of the performance of the majority of tax authorities worldwide, in both developed and emerging countries. Taxpayers should have to pay their taxes with as little trouble as possible, up to the limits of more important tax principles. Small and medium-sized enterprises (SMEs) always file their tax returns on time and try to avoid the last-minute scramble.

The online tax filing system had supporting technologies that made it easy for people to file returns. The study outcome concurs with Hussein *et al*. (2011) who state that, administratively, e-Filing may provide a potential benefit to the government because citizens' tax return processes can be organized effectively through supporting technologies. These processes can be managed by citizens' tax return processes using enabling technologies, which makes e-Filing advantageous to the government. Tahar, Riyadh, Sofyani and Purnomo (2020) affirm that tt is more cost-effective to process, store, and handle tax returns if they are submitted electronically.

Online tax filing systems had increased the SME owners and managers' intention to file taxes. This obtained outcome concurs with Rekayana (2016) who allude that the adoption of digital online taxation system way of filing taxes has resulted into an increased the number of SMEs filing their taxes thus making them to be compliant. Similarly, Hansford and Pilkington (2012) found that the online tax filing system is

not complicated therefore making it to be user friendly, This has resulted to the SMEs owners being in a position of making sure that they file that taxes on time in that they find it easy to use the system as compared to the traditional method of filing taxes. This is also supported by Agustina and Anim (2018) who opine that online tax filing system has played an essential role in improving the level of compliance among many entrepreneurs.

### 4.8.3 System Security mechanisms and Turnover Tax Compliance

This study established that system security mechanism do not influence turnover tax compliance. The outcome agrees with Dewi and Susanti (2019) who allude that users tended to steer clear of using e-filing because they believed it could not ensure data protection. The ease and convenience with which business customers can use the e-Filing system to report taxes without exerting additional effort speaks volumes about the system's quality. This is consistent with Mutinda (2018) who found that the iTax system's security has been demonstrated throughout time, with few complaints regarding compromised data. The safe and easy iTax system has increased tax revenue by reducing the number of late tax returns. There is no denying that the iTax system has been well accepted by taxpayers all around the country.

However, Small and Medium Enterprises owners and managers believed that the information security system on i-tax platform can protect it from unauthorized access. This supported by Mutinda (2018) who assert that taxpayers' generally positive outlook on the iTax has been a major factor in the system's success. This popularity stems from the numerous advantages enjoyed by users of the iTax system. To summarize, the iTax system's widespread popularity may be attributed to its many advantages, including its low learning curve, its accessibility at all hours of the day and night, its security and the fact that it guarantees the privacy of users' tax returns.

According to Tan and Foo (2012), even if a user has a positive impression of e-Filing, their intention to use the system may be dampened by their sense of the risks involved. Desmayanti (2012) found that information system security as the presence of management arrangements that may prevent, overcome, and safeguard information systems from acts that can be destructive, such as unauthorized use and infiltration of various information held. E-filing of tax returns guaranteed SME owners and managers' data security. This outcome differs with Dewi and Susanti (2019) who state that since SME owners and managers' felt their data could not be safe when utilizing e-filing, they avoided doing so. The efficacy of the e-Filing system is demonstrated by the fact that it requires no additional work on the part of corporate users when filing tax returns. Amble (2009) suggest that when it comes to the safety of the e-filing service, many taxpayers still have reservations. That many taxpayers who participate in the program still have faith in the system or agency means that there is room for improvement in terms of protecting taxpayers' private information.

Protecting clients' privacy was a top priority when developing the e-filing system. The results corroborate the claims made by Prawati and Dewi (2018), namely that the ASP server is simple to use; the e-Filing system is prompt in its responses and confirmations; the e-Filing system provides adequate security to safeguard the private information of corporate users; and the data transmission process to the Directorate General of Taxes is straightforward. Pruitt and Turner, (2020) submit that the tax industry as a whole would benefit from an audit of the safety protocols in place to secure customer information. Cybercriminals continue to target tax professionals for the valuable data they have on their clients in order to file bogus tax returns. Everyone, from sole proprietors to partners in multinational corporations, needs to take precautions to safeguard their clients and their businesses.

Small and Medium Enterprises owners and managers used online filing system because of the accuracy that the platform provided. According to Muhammad (2011), technological readiness refers to the degree to which a given technology has the necessary hardware and software components installed to handle data efficiently and effectively. As tax authorities everywhere gradually adopt an e-government model via e-tax services, the question of technological preparedness has taken on greater significance than ever before.

The KRA online tax system performed as expected. According to Dewi and Susanti (2019), users didn't use e-filling because they thought it couldn't guarantee data security, so they didn't use it. The quality of the system is shown by the fact that the e-filing system is easy and comfortable for corporate users to use and does not require extra work. This is consistent with Mutinda (2018) who assert that many taxpayers have reported that their experience with the iTax platform has been positive. Without a doubt, the iTax has completely altered the way in which taxpayers in Kenya handle their financial obligations to the government. Because of the tax system, more and more people are paying their taxes and filing their returns on time now than ever before.

Small and Medium Enterprises owners and managers used online tax filing because they trust the system. This study outcome disagrees with Lu and Nguyen (2016) who state that because of the system's complexity or lack of trust in the website, many taxpayers are unwilling to use e-Filing. According to Anouze and Alamro (2019), the benefits of the e-filing system can be shown through the taxpayer's level of trust in the system's ability to improve their performance. The degree of compliance may rise if using the e-filing system is viewed as being useful by a large percentage of people.

# CHAPTER FIVE

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

This chapter focuses on providing the summary, conclusion and recommendations related to the research topic. It is structured based on the specific objective under study; relationship between technological ease of use and turnover tax compliance, relationship between technology usefulness and turnover tax the relationship between system security mechanism and turnover tax compliance.

## 5.2 Summary

### 5.2.1 Technological Ease of Use and Turnover Tax Compliance

The study showed that SME owners and managers became tax compliant because of the i-tax technology platform adopted by the tax authority. Correlation analysis showed a weak relationship between technological ease of use and turnover tax compliance ($r=0.369$, $p=<0.05$). However, regression coefficient showed ($\beta = .098$, $t(171) = 1.343$, $p>.05$) indicating that a single unit improvement in technological ease of use, improves turnover tax compliance of small and medium size textile enterprises by 9.8%. Hypothesis test showed that technological ease of use did not have a significant relationship with turnover tax compliance among small and medium size textile enterprises in Eastleigh, ($P=0.181>0.05$).

### 5.2.2 Technology Usefulness and Turnover Tax Compliance

The study showed that online tax filing systems has increased their intention to file taxes. Correlation analysis showed a moderate positive relationship between technology usefulness and turnover tax compliance, ($r=0.525$, $p=<0.05$). Additionally, regression coefficient showed ($\beta = .311$, $t(171) = 0.002$, $p<.05$); this implies that technology usefulness accounts for 31.1% of the variance in turnover tax compliance

of the small and medium size enterprises in Eastleigh. Hypothesis test showed that technology usefulness has a significant relationship with turnover tax compliance among small and medium size textile enterprises in Eastleigh, (P=0.002<0.05).

### 5.2.3 Perceived System Security mechanism and Turnover Tax Compliance

The study showed that the information security system on i-tax platform provides the necessary protection against unauthorized access. Correlation analysis showed that system security mechanism had a moderate positive relationship with turnover tax compliance, (r=0.493, p=<0.05). On the other hand, regression coefficient showed (β = .129, t (171) = 0.151, p>.05) indicating that a single unit improvement in system security mechanism, improves turnover tax compliance of small and medium size textile enterprises by 12.9%. Hypothesis indicated that system security mechanism did not have a significant relationship with turnover tax compliance among small and medium size textile enterprises in Eastleigh, (P=0.151>0.05).

## 5.3 Conclusions

This study concludes that technology had removed the effort for users to become compliant and they were open to accept new technology that would enable them become compliant. The SMEs found technology to enhance their filing of their tax return. Surprisingly, the study revealed that ease of use and security features of the system were not important to the users. However, taxpayers (users of the system) take the usefulness of the system as the main factor the influences their use, which translates to tax compliance.

Owners and managers of SMEs in Eastleigh have been using of i-tax return filing platform to remain compliant since they used available technology to file their tax returns. SMEs owners sure that they file that taxes on time in that they find it easy to

use the system as compared to the traditional method of filing taxes. The technology that was available was accurate enough to facilitate their tax filing, and KRA officers were always available to assist with i-tax challenges/ problems, although the services are easy to use. These merchants liked using the I-tax platform to file their returns and they had become tax compliant because of the I-tax technology platform.

Similarly, it can be concluded that the owners and managers of SMEs in Eastleigh believed that technology could assist them in becoming compliant since it had made their tax filing become more effective thus improving their compliance level. Online tax filing system has played an essential role in improving the level of compliance among many entrepreneurs. Technology had increased their convenience of filing tax returns and the supporting technologies had simplified the exercise. Online tax filing systems had increased their intention to file taxes because the tax filing platform was very functional and useful.

More importantly, the owners and managers of textile SMEs in Eastleigh believed that their tax records on the online platform were safe since the information security system on I-tax platform could protect the system from unauthorized access. E-filing of their tax returns guaranteed their data security by protecting the confidentiality of their data. They used online filing system because of the accuracy that the platform provided since the system performed as expected. However, they were concerned about the network disruption that frequently occurred that could lead to payment delays, thus incur hefty fines. But, they had confidence in the security measures applied by KRA on their online system which made them trust the system.

## 5.4 Recommendations

### 5.4.1 Practice and Management

Although this study did not establish any significant relationship between technological ease of use and turnover tax compliance, it is important to appreciate the transformation that technology have brought to tax compliance. Therefore, the study recommends KRA to ensure that the online tax systems are easy to navigate and use, but more importantly, users need to be sensitized to see the importance and usefulness of itax systems. This is because when the taxpayer's perception of using the online tax filing system is easy to use and useful, they will be more willing to use the application, thus increase their compliance.

This study established that there existed a significant relationship between technology usefulness and turnover tax compliance. Thus, it is recommended that KRA need to ensure that their online system is reliable and functional. This may increase the efficiency and convenience of filing taxes which may lead to positive experience and attitude that would facilitate compliance. Similarly, KRA management needs to establish a more robust and secure systems to enhance its trust and effectiveness. This may lead to users perceiving e-filing as a secure process, thus elucidate trust. The level of trust of the taxpayer in using the system has a significant effect on increasing their level of compliance.

### 5.4.2 Implication to Theory

This study extends previous empirical research on the impact of digitization on turnover tax compliance. This study adds to academic knowledge in a number of ways by presenting data demonstrating the major application of efficient digital technologies, as well as improved security methods, to assure an improvement in SME Turnover Tax compliance. This analysis supported the linkages that had been

theorized and corroborated some theoretical contributions. The findings contribute to the body of literature by supporting the unifying theory of acceptance and usage of technology as well as the postulates of the Technology Acceptance Model.

### 5.4.3 Policy Implication

Kenyan government through KRA should improve on fiscal policies, to incorporate new technologies and automated systems. Additionally, KRA should devise effective policies to ensure any system deployed is effective and usable by tax payers in order to boost turnover tax compliance especially in the informal sector.

## 5.5 Recommendations for Further Research

The study focused on the relationship between digitalization effectiveness and turnover tax compliance among small and medium textile enterprises within Eastleigh. The research primarily focused the three specific variables namely; technological ease of use, technology usefulness and system security mechanisms. Therefore, a similar study should be extended to other SMEs within the County and Country. Moreover, the same study should be extended to other industries as well for better coverage and understanding.

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# APPENDICES

## Appendix I: Introduction Letter

PUBLIC

Kenya School of Revenue Administration

KENYA REVENUE AUTHORITY
ISO 9001:2015 CERTIFIED

**REF: KESRA/NBI/036**

30th May 2022

**TO: WHOM IT MAY CONCERN**

**RE: REQUEST FOR RESEARCH DATA**

**AHMED MOHAMMED ABDI - REG. NO.: KESRA105/0043/2020**

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

The named student is undertaking Research on TOPIC: **"EFFECT OF DIGITALIZATION OF TAX ADMINISTRATION AND TURNOVER TAX COMPLIANCE AMONG SMALL AND MEDIUM SIZE ENTERPRISES IN EASTLEIGH, NAIROBI."**

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

Your support to KESRA in this regard will be highly appreciated.

Thank you.

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

KENYA SCHOOL OF REVENUE ADMINISTRATION
DEAN OF STUDIES
30 MAY 2022
ACADEMIC AFFAIRS DIVISION

*Tulipe Ushuru, Tujitegemee!*

**Appendix II: Questionnaire**

The following are some assertions that have been made about you; please indicate whether or not you agree with these comments. If you choose to participate in this survey, the information you provide (check one box per statement) will be treated in the strictest confidentiality and will never be shared publicly.

**Section A: Demographic Information**

1. Gender:

   Male ( )

   Female ( )

2. What is your level of education?

   Certificate ( ) Diploma ( ) Undergraduate ( ) Masters ( )

   Other ( ) Specify _____

3. How long have you been using information technology?

   Below 1 year ( )

   1-3 years ( )

   4-6 years ( )

   7-9 years ( )

   Over 10 years ( )

4. For how long have you used tax information technology?

   Below 1 year ( )

   1-2 years ( )

   3-4 years ( )

   5-6 years ( )

   Over 6 years ( )

**Section B: Technological Ease of Use and Turn over Tax Compliance**

| | | SD | D | N | A | SA |
|---|---|---|---|---|---|---|
| **B1** | Technology has removed the effort for me to become compliant | | | | | |
| **B2** | I am open to accept new technology that will enable me become compliant | | | | | |
| **B3** | I make use of i-tax return filing platform to remain compliant | | | | | |
| **B4** | I always use available technology to file my tax returns | | | | | |
| **B5** | The technology that is available is accurate enough to facilitate my tax filing | | | | | |
| **B6** | KRA officers are always available to assist with i-tax challenges/ problems | | | | | |
| **B7** | KRA i-tax services are easy to use | | | | | |
| **B8** | I like using the i-tax platform to file my returns | | | | | |
| **B9** | I have become tax compliant because of the i-tax technology platform | | | | | |

**Section C: Technology Usefulness and Turn over Tax Compliance**

| | | SD | D | N | A | SA |
|---|---|---|---|---|---|---|
| **C1** | I believe that technology can assist me in becoming compliant | | | | | |
| **C2** | Technology has made my tax filing become more effective | | | | | |
| **C3** | Technology has improved my tax compliance level | | | | | |
| **C4** | Technology has increased my convenience of filing my tax returns | | | | | |
| **C5** | The online tax filing system is very useful to my compliance | | | | | |
| **C6** | The online tax filing system as supporting technologies that make it easy for me to file my returns | | | | | |
| **C7** | Online tax filing systems have increased my intention to file my taxes | | | | | |
| **C8** | KRA's online tax filing platform is very functional | | | | | |
| **C9** | I have found the i-tax platform to be very useful | | | | | |

**Section D: System Security mechanism and Turn over Tax Compliance**

| | | SD | D | N | A | SA |
|---|---|---|---|---|---|---|
| **D1** | I believe my tax records on the online platform are safe | | | | | |
| **D2** | I believe that the information security system on i-tax platform can protect it from unauthorized access | | | | | |
| **D3** | E-filing of my tax returns guarantees my data security | | | | | |
| **D4** | The e-filing system has security measures to keep my information private. | | | | | |
| **D5** | I use online filing system because of the accuracy that the platform provides | | | | | |
| **D6** | The KRA online tax system performs as expected | | | | | |
| **D7** | I am concerned about the network disruption that frequently occur leading to payment delays and incurring of fines | | | | | |
| **D8** | I have confidence in the security measures applied by KRA on their online system | | | | | |
| **D9** | I use online tax filing because I trust the system | | | | | |

**Section E: Tax Compliance**

| | | SD | D | N | A | SA |
|---|---|---|---|---|---|---|
| **E1** | KRA should not penalize people for filing late returns | | | | | |
| | Taxpayers should pay their taxes when they are due | | | | | |
| **E 2** | Proper accounting records facilitate easier tax filing | | | | | |
| **E 3** | Taxpayers should use tax management systems to file their returns | | | | | |
| **E 4** | Taxpayers should ensure they register for i-tax | | | | | |

**Thank You**

# Appendix III: NACOSTI Research Permit

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **590789**

Date of Issue: **17/June/2022**

## RESEARCH LICENSE

**This is to Certify that Mr.. Mohamed Abdi Ahmed of Kenya School of Revenue Administration, has been licensed to conduct research in Nairobi on the topic: EFFECT OF DIGITALIZATION OF TAX ADMINISTRATION ON TURNOVER TAX COMPLIANCE AMONG SMALL AND MEDIUM SIZE ENTERPRISES IN EASTLEIGH, NAIROBI COUNTY for the period ending : 17/June/2023.**

License No: **NACOSTI/P/22/18359**

**590789**

Applicant Identification Number

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NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

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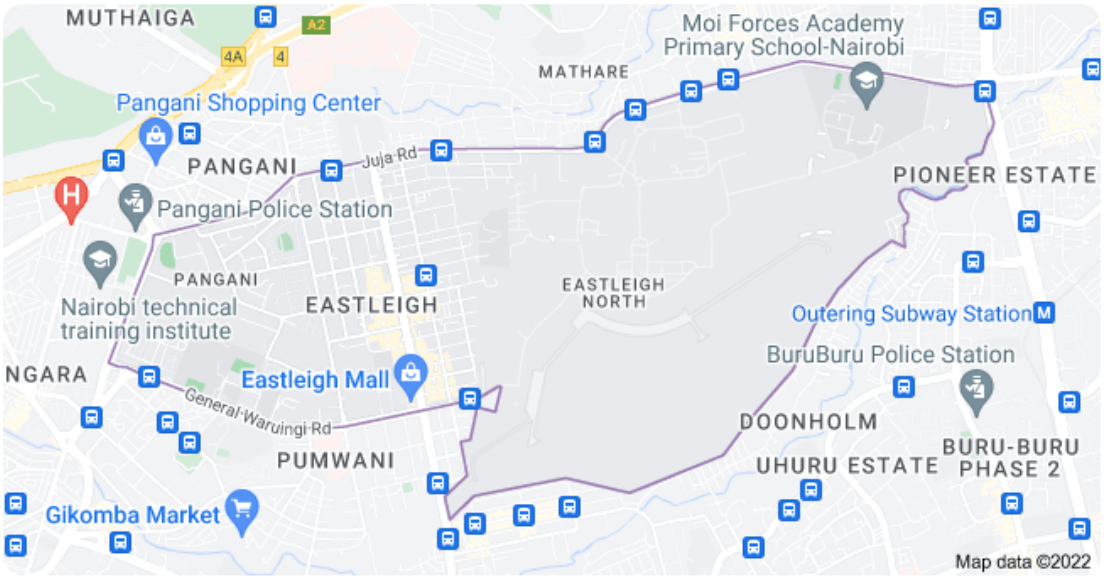
**Appendix III: Eastleigh Map**



**Appendix IV: Plagiarism Ssimilarity Index**

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Statistics: 1752 words Plagiarized / 20488 Total words
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EFFECT OF DIGITALIZATION EFFECTIVENESS ON TURNOVER TAX COMPLIANCE AMONG TEXTILE SMALL AND MEDIUM SIZE ENTERPRISES IN EASTLEIGH, NAIROBI COUNTY AHMED MOHAMED ABDI MU/KESRA105/0043/2020 _ MOI UNIVERSITY NOVEMBER 2022