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Tax gap analysis and way of expanding tax base among micro and small enterprises in Kamukunji Jua-Kali metal in Nairobi County, Kenya

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Abstract

This research analysed the tax gap and way of expanding tax base among Smes in Kamukunji Jua-Kali Metal in Nairobi County, Kenya. The research study specific objectives were to: identify the effect of legislation, establish the effect of corruption, explore the effects of knowledge and to establish the effect of low income on tax gap among SMEs in Kamukunji Jua-Kali Metal in Nairobi County, Kenya. The study findings are of significance to the government, importers, exporters, researchers and scholars. This study applied a mixed methods research approach. The study targeted 4000 SMEs dealing in agricultural products, building supplies, Kitchen wares (cooking) and Electrical Appliances. Primary data was used and triangulated with secondary data in the study. Primary data was collected by the use of questionnaires and the secondary data was collected from the relevant books and journals that aided the researcher in conducting the study. Multiple regression was used to represent the relationship between the dependent and independent variables of the study. Tables and graphs were used to represent data in this study. The findings show that SMES have complied with the existing laws on taxation although majority of respondents were neutral. On whether SMEs have upheld high tax morality, majority of respondents disagree. On whether SMEs have knowledge on various taxes they should pay, majority of respondents disagreed. Majority of respondents disagreed that SMEs have been experiencing low profitability. The study concludes that, SMEs have not fully complied with the existing taxation laws thus increasing the tax gap. They have not fully complied with the existing taxation policies thus increasing the tax gap. The tax authority has not invested resources in tax education which contributed to little knowledge on various taxes that SMEs should pay, this contributes to increase in tax gap. SMEs had registered some profitability but failed to comply with taxation. They did not benefit from tax subsidies since they had not complied with the relevant taxation laws thus leading to increased tax gap. This study, therefore, recommends that SMEs need to comply with the existing laws and policies so as to reduce the tax gap. Kenya revenue authority should carry awareness among SMEs on the importance of tax morality. Stiff penalties and even jail terms should be imposed on those who colluded to engage in tax immorality. KRA should invest resources aimed at creating awareness on the importance of tax compliance among the SMEs and also come up with an effective method of measuring the profitability of SMEs to ensure that the right taxes are paid.
Keywords: Tax gaps, Jua kali, Kamukunji

1.0. Introduction

1.1 Background of the study

The tax gap can be defined as the difference between the actual taxes collected and those which would be collected under full compliance. Consequently, by estimating the tax gap, it is possible to obtain relevant information about the degree of non-compliance and its components for a specific tax or for the tax system as a whole, including its evolution over time. This information can be essential for tax administrations when deciding how to allocate their resources to improve tax compliance (Warren, 2016).

Tax gaps exist primarily because of evasion, thus its calculation entails making an estimation and finding "evidence of the invisible." Knowing its extent or its magnitude is relevant; however, it is probably more important to know how it evolves over time (Alstadsæter, Johannesen and Zucman, 2018). Consequently, the estimation strategy should satisfy at least three conditions to guarantee rigour and transparency: first, the results should be presented within confidence intervals; second, the methodology should be relatively stable over time and third, the data used for the estimation should be available on a periodic basis. In this manner, estimating the tax gap would make sense as it provides information that would be very useful to the tax administration as a management tool (Zucman, 2014).

Likewise, its periodic estimation may also serve as a way of reinforcing tax administration accountability to citizens as it provides public information on its performance. Based on annual surveys of individuals on their perception of tax fraud prepared by the Centro de Investigaciones Sociológicas, Amoah, Asuamah and Amaning. (2014) show there is some evidence that taxpayers tend to overestimate (underestimate) the existence of tax fraud in times of economic crisis (expansion). This overvaluation undermines the incentives for voluntary tax compliance which is especially serious for the public sector during times of crisis when financial restrictions are greater. The publication of the tax gap could contribute to stemming the erosion of the credibility in public finances, enabling taxpayers to moderate their perceptions closer to what happens in reality (Antwi, Inusah and Hamza, 2015).

Nonetheless, as a public management instrument, it also exhibits some weaknesses. For one, being an estimate, some caution should be taken when interpreting its value over time and when making cross-country comparisons. Indeed, the tax gap also depends on elements inherent to the fiscal system itself and on country-specific characteristics (Bekoe, Danquah and Senahey, 2016). There are enormous differences across countries in terms of the types of taxes and their level of importance, in the composition of tax bases, in the structure of production, and in the level of tax morale. For another, the optimal tax gap is not necessarily zero. The existence of costs related to ex ante and to ex post control makes it necessary to maintain an adequate balance between such costs and the ensuing benefits of reducing the tax gap (Bayu, 2015).

1.1.1 Global Perspective

Researchers, national (tax) administrations and international institutions have developed several methods to estimate revenue loss. In order to pool knowledge and share expertise, the Tax Gap Project Group (TGPG)2 was established under the Fiscalis 2020 Programme. The group initially focused on the VAT gap, which led to the publication of a report on "The Concept of Tax Gaps – Report on VAT Gap Estimations" (Bird, 2013). The Group subsequently focused on direct tax gap methodologies, particularly methodologies for corporate income tax gaps. The project group included national experts from 16 Member States (Belgium, Bulgaria, Czech Republic, Denmark, Germany, Spain, Italy, Latvia, Lithuania, Hungary, Netherlands, Poland, Portugal, Slovakia, Finland and Sweden) and the European Commission coordinated its work. The TGPG held seven meetings to discuss different methodologies available and benefited from presentations by participating members and external experts (Besley and Persson, 2014).

Admittedly, the measurement of tax gap is a difficult exercise. The methodology adopted would vary with factors such as the type of tax, the nature of the sector, class of taxpayers and the quality of the information. There are two main methods to measure a country's tax gap. Different countries use different methods. The UK uses the macro method to estimate the size of tax gaps for VAT and excise duties (Danquah and Osei-Assibey, 2016). The micro method is mainly relied upon for direct taxes although it is sometimes used to supplement the macro calculation of VAT gaps in specific situations where risks like fraud are high. The Swedish tax authority believes that macro and micro methods are complementary and utilizes the combination to calculate its tax gaps. The USA appears to use mainly micro approaches as their studies often involve randomly selected samples to gather relevant data. In measuring Pakistan's tax gap, the World Bank appears to utilize micro methods through a simulation based on potential revenues from major federal taxes (Couzin, 2017).

If tax gap is due to a lack of information sources and disclosure, withholding tax mechanism can be considered. The experiences in the USA and the UK demonstrate that compliance rates are much higher in cases where the payors of selected income are required to withhold taxes from their payments (Gemmell and Hasselidne, 2014). In the USA, a very low misreporting rate of 1.2% occurred in cases where withholding and third party information reporting were in place compared with 4.6% in cases subject to only third party information reporting. In the UK, labour income subject to the Pay As You Earn Scheme had a lower level of under-declaration compared with earned business income (Dudine and Jalles, 2018).

1.1.2 Regional Perspective

In sub-Saharan Africa (SSA), economic activities revolve around an ever-expanding informal sector. The informal sector accounts for 70 per cent of employment in SSA. Considering the high tax evasions and avoidance within the informal sector of many developing countries, many countries in SSA over the years have attempted to reduce the tax gap or tax revenue losses by widening the tax net to capture players in the informal sector or the shadowy economy in order to generate more revenue without resorting to increasing tax rates (which has been found theoretically to depress growth). Internal revenue regulations have therefore been amended and introduced in many SSA countries in order to vigorously restructure and collect taxes in the informal sector (Helhel andAhmed, 2014).

Many SSA countries have therefore devised different taxation tools to collect taxes from the informal sector. Some of these taxation tools include the occupational and sector specific standards assessment, the estimated lump sum Assessment System and the presumptive minimum taxes (Luttmer and Singhal, 2014). For instance, the occupational and sector-specific standards assessment, which is a fixed lump sum tax payment to be paid by persons or enterprises engaged in a certain business or profession and the presumptive minimum taxes, which is levied based on the assumed minimum income level in a given year, have been applied in many SSA countries such as Ghana, Nigeria (in some states), Mozambique, Lesotho, Sierra Leone, Kenya, Burkina Faso and Ethiopia among others (Danquah & Osei-Assibey, 2016). For instance, in order to further expand the tax base in Ghana, the Ghana Revenue Authority (GRA) introduced the tax stamp, a presumptive minimum tax system Internal Revenue (Amendment) Regulations in 2004 to capture firms in the informal sector. As indicated, all these amendments in internal revenue regulations in SSA countries have been carried out to ensure that the informal or shadow economy, which is assumed to represent the size of other tax gap in the macro indicator approach, is adequately taxed (Keen and Slemrod, 2017). Thus deviating from the earlier studies that assumes that the informal sector is not taxed, therefore represent tax loss(macro indicator approach), this paper attempts to empirically investigate the potential tax as well as the actual tax collected from the informal sector in order to determine the tax gap within the informal sector in SSA (Helhel andAhmed, 2014). In this way, we are able to gauge how much taxes SSA governments are collecting from the sprawling informal or shadow economy vis-a-vis the potential tax and the tax revenue loss. In addition, we can also analyses the propensity to pay tax as well as the underlying factors explaining the tax revenue losses/tax gap in the informal sector in SSA. Therefore, the study fills an important void on taxation in the informal sector in SSA countries (Kanyi and Kalui, 2014).

1.1.3 Local Perspective

In this context if the Kenyan government follows the advice of the IMF it may significantly reduce Kenya's ability to achieve self-sufficiency. It is true that so far the reduction in tariffs has been successful, as increased imports have compensated for the reduction in tariffs and resulted in a rise in tax revenue from trade. However, the positive impact of liberalisation in 1993 was in large part a consequence of the fact that tariffs had previously been extremely high (Besley and Persson, 2014). As a result the reduction of tariff rates led to a massive increase in the quantity of imports At the same time a weaker currency, falling costs of inputs and a reduction in export tariffs made Kenyan products more competitive and increased the quantity of exports enough to compensate for the lowering of export tariffs. These processes, combined with the increased investment in the country as a result of the optimism that greeted the transition to multi-party politics, created a situation within which trade liberalisation could be realised at the same time as increases in tax revenue (Bird, 2013).

Now that the tariff rate has been dramatically reduced, future reductions in tariff rates are unlikely to have the same effect. Trade liberalisation may have important benefits in terms of improving efficiency, restructuring the economy and promoting growth but liberalisation should not be pursued at any cost. Further liberalisation would reduce the revenue available to the Kenyan government and would consequently undermine the ability of any government to maintain development programme(Helhel andAhmed, 2014). There is some evidence that this contradiction has resulted in a systematic exaggeration of the potential for increases in tax revenues through increases in administrative capacity. By claiming that great improvements in tax revenue are possible through more efficient administration, the Kenyan government can increase the budget to be allocated for the coming year without introducing a budget deficit. This allows them, at least in the short term, to keep both the international organisations and their domestic electorate happy. However, in the long-term if estimated tax revenues fail to materialise the inevitable consequence will be damaging u-turns on economic policy as the government introduces emergency budget cuts in order to make up the short fall (Bayu, 2015).

1.2 Statement of the Problem

Many developing countries have either vast agricultural sectors or significant informal economic activities the output from which cannot be readily measured or taxed. As such, the tax base as a proportion of the aggregate economic activity in such countries may be relatively small compared to that in developed countries. A main cause for the size of the informal economy in some developing nations may be attributable to persistent high rates of unemployment in the formal sector (Bird, 2013). Another reason could be due to excessive taxes, costs and government regulations as well as endemic corruption in areas relating to the operation and taxation of formal business organisations. Previous studies have shown that the primary reason for entrepreneurs to operate within the informal economy was not to avoid official taxes but bureaucratic interference at various stages of economic activities (Helhel andAhmed, 2014).

While the tax system in developing countries is largely a product of the prevailing economic structures, revenue productivity is largely a function of the quality of design and implementation of a tax system. It has been aptly pointed out that a tax system that over accommodates the shortcomings of the tax administration and the functioning of a parallel informal economy can have deleterious effects on tax equity, the efficiency of resource allocation, and the integrity of tax revenue collection in the long run (Couzin, 2017). As a general trend, economic data demonstrates that developing countries appear to have a larger tax gap than developed nations. Developing nations such as Bangladesh, South Africa and Thailand had average tax gaps of about 36%, 23% and 53% respectively compared with significantly lower averages of about 14%, 13% and 9% respectively found in Australia, UK and USA during the period 1999-2002. Specific country reports support the conclusions on these trends. The Swedish National Tax Agency reported its tax gap in 2007 to be about 10% of taxable income. A study on New Zealand reported an average tax gap of about 9% during the period from 1968-1994. In contrast, selected developing nations like Pakistan revealed a gap of no less than 70% in 2007/2008. Romania's VAT gap in 2002 was about 45%. Afghanistan's tax gap was indicated to be 60% in a 2005 World Bank report (Besley and Persson, 2014).

A study on 145 countries estimates that the average size of the shadow economy in developing countries is approximately 40% of the official GDP. Other national studies reveal that workers in the informal sector consists of approximately 90% of the total workforce (based on national survey between 1999 and 2005 period) in India, almost 75% in Kenya and 30% in the Philippines. The shadow economy undermines the stability of revenue collection and equity among taxpayers as large amounts of income from activities taking place in the informal sectors escape untaxed unlike similar activities that are taxed in the formal sector. The researcher finds inadequacy on the studies on tax gap analysis and deems them not been effectively carried out on Kenyan informal sector which leaves a major gap and therefore the need to carry out the study on tax gap and way of expanding tax base among SMEs in Kamukunji Jua-Kali Metal in Nairobi County, Kenya.

1.3 Research Objectives

1.3.1 General Objectives

The study analyzed the tax gap and way of expanding tax base among Smes in Kamukunji Jua-Kali Metal in Nairobi County, Kenya.

1.3.2 Specific Objectives

i. To identify the effect of legislation on tax gap among SMEs in Kamukunji Jua-Kali Metal in Nairobi County, Kenya.
ii. To establish the effect of corruption on tax gap among SMEs in Kamukunji Jua-Kali Metal in Nairobi County, Kenya.
iii. To explore the effects of knowledge on tax gap among SMEs in Kamukunji Jua-Kali Metal in Nairobi County, Kenya.
iv. To determine the effect of low income on tax gap among SMEs in Kamukunji Jua-Kali Metal in Nairobi County, Kenya.

1.4 Research Questions

i. What is the effect of legislation on tax gap among SMEs in Kamukunji Jua-Kali Metal in Nairobi County, Kenya?
ii. To what extent does corruption affect tax gap among SMEs in Kamukunji Jua-Kali Metal in Nairobi County, Kenya?
iii. What is the effect of knowledge on tax gap among SMEs in Kamukunji Jua-Kali Metal in Nairobi County, Kenya?
iv. To what extent does low income affect tax gap among SMEs in Kamukunji Jua-Kali Metal in Nairobi County, Kenya?

1.5 Scope of the Study

The study purposed to the analyze the Tax gap and way of expanding tax base among SMEs in Kamukunji Jua-Kali Metal in Nairobi County, Kenya. The study location was SMEs in Nairobi County. The study time scope was between April 2022 and July 2022.

1.6 Significance of the Study

The study results will be of abundant significance to the government as the study will provide insight on Tax gap and way of expanding tax base among SMEs in Kamukunji Jua-Kali Metal in Nairobi County, Kenya. The research outcomes will give the understanding of what other researchers have found on the variables being Tax gap and way of expanding tax base among SMEs in Kamukunji Jua-Kali Metal in Nairobi County, Kenya, when implemented, the findings will enable the government to intervene.

The study will provide the background information to other researchers and scholars who may want to carry out further research on the tax gap and way of expanding tax base among SMEs in Kamukunji Jua-Kali Metal in Nairobi County, Kenya. The study will facilitate individual researchers to identify gaps in the current research work and carry out further research in those areas

2.LITERATURE REVIEW

2.0 Introduction

2.1 The concept of Tax Gap

One of taxation's key functions is to raise revenues to finance public expenditures such as social protection, healthcare, education or public infrastructure. However, the amount of tax collected is in practice less than it should be if all taxpayers were fully compliant with their tax obligations, i.e. if they filed complete and accurate tax returns and paid all due taxes (Zucman, 2014). This lack of compliance has numerous causes and can be deliberate on the side of the taxpayers or not. The loss of tax revenues owing to non-compliance is often referred to as the 'tax gap'. The lack of tax compliance leads to a loss of tax revenues, with serious consequences for public finance. It also influences people's perception of tax fairness. It may have an impact on tax morale and tax consent as those who comply with their tax obligations may see it as a justification for no longer (fully) complying. Finally, an effective collection of taxes is essential for ensuring a level playing field between companies. Tackling the issue of unpaid taxes is therefore a collective responsibility that starts with understanding the scale and the scope of the issue (Warren, 2016).

Tax revenue collection as a share of GDP is only 15 to 20% in lower- and middle-income countries but over 30% in upper income countries. This gap is important, because it implies that developing countries have less tax revenue to spend on public goods such as infrastructure and good governance (Mascagni et al., 2014). Closing this gap is not as easy as it might superficially seem, because the gap is caused less by a choice of low tax rates and more by challenges associated with tax collection in developing countries, these include informality and misreporting, by both workers and firms. These challenges generate a vicious cycle, where developing countries remain poor because they are unable to mobilize revenue to invest in public goods (Monkam and Moore, 2015).

The tax gap is not just attributable to tax evasion, however, as tax evasion requires deliberate noncompliance. Noncompliance due to unintentional errors on the part of taxpayers is included in the tax gap but not considered tax evasion. Reducing the tax gap is a good idea for revenue generation compared to the alternative ways to raise revenue (Keen and Slemrod, 2017). However, there is a wide array of estimates of how much of the tax gap can feasibly be closed, and many of the approaches for reducing the tax gap come with their own costs in the form of higher compliance burdens for taxpayers. This paper seeks to explain estimates of the tax gap and proposals to reduce it and determine which methods for improving tax compliance make the most sense for both taxpayers and tax authorities. Policymakers should balance those concerns when weighing the potential for new revenue generated from greater tax enforcement (Luttmer and Singhal, 2014).

As households and firms may choose to underreport their income to evade taxes, independent reports of household and firm income are necessary in order to enforce taxes. Rather than underreporting their income, households and firms may remain informal and altogether evade reporting their economic activities to the government. Informality limits the ability of the government to maintain information trails that are necessary for tax enforcement (Gemmell and Hasselidne, 2014).

When households and firms choose to evade, they may systematically misreport economic activities that are more difficult for the government to observe, implying that decisions about who and what to tax can have meaningful impacts on tax compliance. In many cases, tax evasion by households and firms may not be strategic, but instead economic agents may be unaware of when or how to pay the taxes they owe (Dudine and Jalles, 2018). Households and firms may decide whether and how much to pay taxes as a function of how effectively they believe their tax payments will be used. Just as tax revenue enables government to invest in public goods, firms and individuals may choose to pay taxes only when governments spend wisely (Helhel and Ahmed, 2014).

Legislations are often complex and differences of interpretation between taxpayers and tax authorities may occur as a result. This creates tax uncertainty, as both the taxpayers and the tax authorities cannot be certain that the declared taxable profit and the levied and collected corporate income tax is the definitive indebted tax according to an unambiguous explanation to the law (Besley and Persson, 2014). In practice, many disputes between tax authorities and corporate taxpayers can be explained from the ambiguity of tax laws. Case law (decisions of tax courts), administrative guidance or published rulings may provide more clarity and guidance on the appropriate interpretation of the tax rules (Bird, 2013).

The ways in which revenue bodies engage with taxpayers also differ per jurisdiction. These interactions have effects on the overall corporate income tax systems and the way they work (Gemmell and Hasselidne, 2014). Indeed, for instance, if a jurisdiction succeeds in placing emphasis on preliminary consultations and other proactive supervisory activities, it will probably lead to less ex-post adjustments of tax returns, fewer appeals and less litigation procedures. Tax gap estimates based on samples and adjustments of the taxable profit do not reflect the efforts by these revenue bodies to mitigate the tax gap proactively (Bekoe et al., 2016).

2.2 Theoretical Review

2.2.1 Theory of Planned Behavior

The Hypothesis of planned behavior was proposed by Ajzen (1985) as an augmentation of the Theory of Reasoned Action, which had been suggested a decade ago, by Besley and Persson (2014). The theory was anticipated to explicate behaviors over which human being have control of. The model entails behavioral intentions which are swayed by the attitude about the likelihood that the behavior will have the likely result and the subjective assessment of the risks and benefits of that outcome. The assumption of Theory is that there is one basis of behavior, which is referred as the individual's intention to do or not to do. This intent itself is regarded to be determined; subjective norms, attitude and subjective control to a specific behavior applied (Bayu, 2015). Precisely, the theory tries to give an account of how a behavior can be predicted by subjective norms, attitude, intentions and subjective control. In testing the behavior of tax compliance, Planned behavior theory framework was translated that tax compliance behavior will be determined by the intent to comply while the intention to comply will be influenced by the attitude of tax compliance, subjective norms, and perceived behavioral control. One of the areas where tax law and economics meet is taxes. Hence the aim of the article is to confirm or disapprove the hypothesis that firstly TPB has been used in connection with taxes over the last ten years. If this hypothesis is confirmed then it is the aim to determine in which areas it has been applied (Bayu, 2015).

2.2.2 Social Influence Behavior Theory

As proposed by Kelman (1958), an individual's beliefs, attitudes, and succeeding actions or conducts are influenced by others through three processes: when the person accept the influence and adopt influenced behavior to gain rewards, when a person adopt the influenced behavior to maintain a preferred and beneficial relationship to another person and when a person accept influence after perceiving the influenced behavior is rewarding. As per the theory, compliance conduct and attitudes towards the assessment framework are believed to be influenced by the behavior and social standards of a person's reference group. Bird (2013) informed that, the social impact theory suggests that people are swayed to conform to their tax commitment by psychological factors. The theory centers on the taxpayer's ethics and morals and proposes that citizens may conform even when the likelihood of being detected is small. Tax compliance factors from a public stance identified with taxpayer's tendency to adjust with tax guidelines in retort to numerous other well-known behavior and the circumstance of their locale (the bearing, partners and family level individuals). This theory additionally proposes that there are three principle effects that are connected with the individual reason to perform. These components are; an individual's disposition toward the conduct being referred to, societal variables and obvious conduct control. Social models are the manner by which humanity impacts an individual's conduct (Keen and Slemrod, 2017).

Tax sanctions are imposed on taxpayers as a legal consequence if they violate existing regulations. The theory that is considered to be closely related to the moral of taxpayers is the theory of moral reasoning. The theory of moral reasoning in the context of tax compliance states that moral decisions are mainly influenced by the application of sanctions on low moral reasoning. Based on the description above, it is hypothesized (Bird, 2013).

2.3 Empirical Review

2.3.1 Legislation

Small and Medium Enterprises (SMEs) are creators and innovators, generating new ideas, and developing the most interesting concepts. They contribute to communities' unique identities and are the lifeline of any country's economy, through job creation and as a stepping stone to achieving shared prosperity (Alstadsæter et al., 2018). For instance, the world's largest economy, United States of America (USA), attributes its fast-paced economic growth, since 1776, to a vibrant SME sector. Whilst SMEs, due to their nature, are able to adapt to changing times, they remain the most vulnerable when the business environment becomes unfriendly. A such, governments across the world have put in place mechanisms, to spearhead the growth of small businesses and cushion them from shocks. Unfortunately, there remains a gap between Governments' good intentions, to support SMEs to contribute more to a country's economy, and understanding small business' needs and the challenges facing them. Here in Kenya, the amount of taxes businesses are required to pay, and the regulations that need to be adhered to, is ever increasing (Besley and Persson, 2014).

During a Regulatory Boot Camp, for manufacturing SMEs hosted by Kenya Association of Manufacturers (KAM) one thing stood out – the regulatory burden for SMEs in Kenya is quite heavy. Manufacturing SMEs decried the numerous standards and regulations that they need to adhere to, and their ensuing cost. Additionally, the various taxes, licenses, acess, fees and permits that need to be paid (Antwi et al., 2015). For SMEs, the requirements from numerous agencies and the national and county governments, take up a large portion of their operational costs. At a time when businesses are still reeling from the impact of the pandemic, with some facing challenges in meeting their financial obligations, this is a dire situation that calls for urgent intervention. The Manufacturing SMEs' sentiments echo a Regulatory Audit Report launched by KAM earlier this year. From the report, regulations become troublesome when they are numerous, since they increase the cost of compliance. They are difficult to administer and to comply with, especially when similar regulations are administered by more than one agency (Gemmell and Hasselidne, 2014).

Although regulations seek to create a level-playing field for businesses, regulatory overreach hinders the competitiveness of local industry. For instance, Government, through the Finance Act 2021, has introduced a 10% excise duty on plastics items, including carboys, bottles and flasks. This cost will be passed down to consumers, whose spending power has been crippled by the ongoing pandemic. On the other hand, it is a blow to manufacturers, who are struggling to reduce costs, in a highly uncertain business environment, which has increased the cost of doing business (Antwi et al., 2015). As such, national and county governments need to ease the regulatory burden for SMEs. One way of doing this, is involving SMEs, when formulating laws, regulations and policies. By doing so, the laws, regulations and policies will be SME-centered, and in turn, support competitive industrial development. In addition, involving SMEs shall also enable them to understand the laws, policies, regulations and standards that they need to adhere to, when developing products and accessing various markets. Experience from other countries has shown that a properly anchored regulatory framework is key in not only protecting minority investors, but also creating an enabling environment for all players. For instance, streamlining and harmonizing licenses in countries such as Egypt and Rwanda have proven to be time and cost-saving (Alstadsæter et al., 2018).

Taxation is the main source of revenue to any government, since it the only stable flow of revenue that is predictable. A large segment of the informal sector, especially the Smes in Bungoma county exhibit low tax compliance levels. The purpose of the study was to investigate the determinants of tax compliance among smes in Bungoma county. The study was guided by the following objectives; to determine the effect of cost on tax compliance among smes in Bungoma county. The study applied a descriptive survey design of all the SMEs in Bungoma county. According to Antwi et al., (2015), descriptive survey design enables the researcher to collect, analyse and link both qualitative and quantitative data in a single study. The population of the study consisted of all the SMEs in Bungoma County. A total of 170 SMEs in Bungoma County were targeted for the study. With a sample of size of 227 respondents. Closed-ended questionnaires covered all the issues relating to the causes of low tax compliance among SMEs in Bungoma County were personally administered to the respondents, 227 managers, 1 from each of the sampled organizations in sectors. Pilot test was done to verify the reliability and validity of the research instrument. The data collected was analysed using descriptive statistics, correlations, and linear regression analysis. Results showed that there was a significant influence of cost on tax compliance in Bungoma County. From study findings and earlier discussion, it was noted that cost influence tax compliance negatively and significantly contributing 9.6% variability to tax compliance by SMEs when other factors are held constant. The Kenya Revenue Authority should consider revising the cost of tax product downwards. Additionally, Kenya Revenue Authority should make the tax filing process convenient, easy and costless. Similarly, Kenya revenue authority, should not impose penalties on late filing of taxes. The tax computation should be as easy as possible to enhance eligible tax payers' compliance (Antwi et al., 2015).

In this study the researcher sought to explore the different factors that determine tax payers' compliance in Nairobi East Tax District. Using a linear regression probit model the researcher found some similarities and differences in factors that are correlated to tax compliance in the locality under study (Besley and Persson, 2014). An increase in the tax payers understanding of the tax laws and the tax system as well as an increase in government accountability with regards to provision of public good and services results into higher compliance levels, thus more of funds through revenue collection. The results of this research will help the government in making policies as they will gain insight on the extent of tax payers knowledge and the ways its affecting tax compliance. It will also help the revenue authorities on administration especially with designing tax payers' education programmes, simplicity of the taxation system and developing a better understanding of the tax compliance behaviour. It will also contribute to the current literature on the factors that define tax payers' compliance and discuss the strategies of increasing compliance (Besley and Persson, 2014).

2.3.2 Corruption

A review of literature indicates that corruption has a significant negative impact on the levels of tax revenue collected in a country. The current understanding of the correlation between corruption and tax revenue however is incomplete since there is insufficient information available on the impact of taxation on corruption. Corruption not only lowers the tax-GDP ratio but also causes long-term damage to the economy by detracting investment, increasing the size of the informal economy, distorting tax structures and corroding the tax morality of taxpayers (Bayu, 2015). All of these, in turn it further reduce the long-term revenue generating potential of the economy. The impact of taxation on corruption is less explored in the existing research literature. The little information that was found indicates that higher tax rates can induce more corruption in an economy by incentivising tax evasion. Some scholars argue that corruption can mitigate the burdens of excessive taxation on the economy through enabling better allocation of resources and enabling investment. However, the underlying assumptions of these findings have been challenged by other researchers. It is recommended that more empirical research is carried out to better understand the impacts of taxation on corruption (Amoah et al., 2014).

Corruption affects the tax morality of taxpayers and distorts tax structure. The tax revenue collection processes involve several major stakeholders in society, which makes the opportunities for and motivations to engage in corruption both numerous and widespread. These stakeholders include the tax officials, politicians, patrimonial networks and the taxpayers themselves (Besley and Persson, 2014). Persistence of corruption in the tax collection process therefore helps to foster a culture of corruption among a wide range of actors, which in turn damages the possibility of establishing good governance and democratic accountability in the long run. Corruption in tax administration is a wide topic on its own and is beyond the scope of this Expert Answer. By worsening the distortions on the level of taxation and its structure, corruption reduces growth. Political corruption and/or state capture leads to politicians abusing their entrusted powers by introducing tax regulations favourable to industries with entrenched powers. Corruption at this level can also lead to inefficient tax structure design which can create artificial barriers to private economic activities, which not only erodes the revenue base of the economy (and by extension, its tax-generating capacity), but it also creates greater opportunities for corruption at the bureaucratic level (Bekoe et al., 2016).

Developing countries face a number of institutional problems in the process of revenue generation. One of the main problems is the corruption in tax administration. The second main problem of low revenue generation is the low quality of governance (Bayu, 2015). This study analyses the effect of institutional and structural variables (corruption and governance) on tax revenues using a panel data set for 25 developing countries over the period 1990-2005. The GMM regression results show that corruption has an adverse effect on tax collection, while good governance contributes to better performance in tax collection. It is further observed that institutional variables have a significant effect on tax revenues (Amoah et al., 2014).

Bayu (2015) studied the impact of corruption on the revenue-generating capacity of different tax categories in the Middle East. We find that the low revenue collection as a share of GDP there compared to other middle-income regions is due in part to corruption, and certain taxes are more affected than others. Taxes that require frequent interaction between the tax authority and individuals, such as taxes on international trade, seem to be more affected by corruption than most other types of taxation. This suggests that if governments need to raise more tax revenues in a way that minimizes distortions and maximizes social welfare, they should implement reforms that either reduce corruption or raise revenues from tax categories that are less susceptible to corruption. Possible reforms of the revenue system and administration are examined. The other reason for low tax revenues is widespread institutional corruption; the widely cited annual Transparency International Corruption Perception Index (TICPI) in 2005 gave the Middle East as a whole a value of 3.8 and the non-Gulf countries an even lower 2.9 out of a possible 10.2 True, institutional corruption is not unique to the Middle East. The phenomenon is widespread in tax and customs administrations in many developing countries, including most Sub-Saharan African countries and many countries in Latin America and Asia.

Revenues from taxation gain is importance to finance economic development in Sub-Saharan Africa. One obstacle to enhancing the willingness to remit taxes can be the extortion of bribes by public officials. Using micro-level data from the Afrobarometer, we show that petty corruption erodes tax morale (Couzin, 2017). The effect on tax morale is more severe in countries and regions where fewer people are affected by petty corruption and becomes insignificant if extortion of bribes is particularly prevalent. Differing levels of civic participation and potential access to tax funded services are also found to induce heterogeneous reactions to corruption experience. Applying a mediation analysis, we demonstrate that petty corruption not only has a direct effect on tax morale but also diminishes confidence in tax authorities and therefore affects tax morale indirectly. The harmful effects of corruption experience, however, operate mainly through a generally lowered inclination to uphold high levels of tax morale (Besley and Persson, 2014).

In a study conducted between November 2010 and February 2011 on ill-gotten money and the economy, the Financial Integrity team looked at the experiences of Malawi and Namibia. We approached the project with an open mind and without any assumptions, finding that for Malawi, corruption and tax evasion as a percentage of GDP represent a significant drag on economic development (Bekoe et al., 2016). Corruption is estimated at 5% of GDP and tax evasion, at a whopping 8-12% of GDP. Meanwhile, we estimated that tax revenue actually collected by the Malawi Revenue Authority is only 22% of GDP. Thus, if the national tax authority had successfully collected all the taxes, it was due, government revenue would increase by 50 percent. This is approximately about how much Malawi receives in foreign aid (11.7 percent of GDP). As one Malawi Revenue official stated when being interviewed during the study: “if we collected all the taxes, we will then not have to depend on foreign aid” (Danquah and Osei-Assibey, 2016).

The Namibian tax evasion situation is no better, as uncollected taxes are equivalent to about 9% of the GDP. This is larger than education’s share of the economy and almost as large as the mining sector—which generates most of the country’s export income (Gemmell and Hasselidne, 2014). What makes things worse is that Namibia suffers from the highest income inequality in the world: The Gini co-efficient, which measures the gap between rich and poor, is estimated at 70.7. Tax evasion siphons away money that could be invested in productive resources needed to diversify the economy and address urgent social problems. Furthermore, the revenue lost through corruption and tax evasion represents a diversion (“leakage”) of financial resources away from the national budget toward private spending. And these private expenses or expenditures have much lower “multiplier effects” than expenditures on, for example, agricultural fertilizers, education, health, and infrastructure (Dudine and Jalles, 2018).

2.3.3 Knowledge

Tax is an important stream of revenue for government’s development projects and therefore all efforts must be made by governments to ensure that it is accurately and efficiently collected so as to facilitate the government’s operations. In an effort to maximize collection of revenue and efficiency in tax administration, key changes to tax policy evolving around ensuring equity, further widening the tax base, promoting increased investment and in so doing, reducing the tax compliance burden, have in the recent past been made by the Kenyan government (Helhel and Ahmed, 2014).

Kanyi and Kalui (2014) sought to identify the factors that influence tax compliance in Kenya, specifically focusing on SME's operating within Nairobi's Industrial Area. The researcher outlined a detailed literature review and identified the variables for this research to be tax rate, availability of tax information, tax compliance cost and attitude of SME's. The findings of the study revealed that with regard to tax rate as a factor influencing SMEs compliance, the majority view that Kenya has high tax rates with several different tax heads and this consequently hinders their level of compliance. The lack of readily available information relating to tax matters accounted to a great percentage as a reason for non-compliance. The lack of information contributed to the inability of the taxpayers to correctly calculate the taxes payable; another form of non-compliance. The SMEs view that if more information would be availed to them in form of tax seminars and literature, this would demystify the complex concept of tax and greatly motivate them to be compliant. The findings of this study further revealed that 47% of the SMEs interviewed incur more than Ksh.50, 000 monthly, as costs of tax compliance.

Some of these costs include bookkeeping, installation of software and internet costs, additional cost of hiring professional staff such as auditors and tax experts, accounting for the largest proportion of these costs. With regard to SMEs attitude as a factor affecting tax compliance, the respondents do agree and feel that they do have access to public utilities which are made available by the taxes paid to the government; hence they enjoy benefits of the taxes they pay (Keen and Slemrod, 2017). These organizations do value the payment of taxes to the government to a great extent, which affects their level of tax compliance. The findings of the study further revealed that the respondents do feel that their counterparts, fellow SMEs, also value the payment of taxes to the government to some extent. However, the taxpayers do feel and strongly agree that the taxation system in Kenya is in great need of improvement. By gaining an understanding of these underlying factors, KRA and the government will be able to make changes that will greatly improve taxpayers' tax compliance level, with the end result being increased government revenues, allowing the tax authority to give quality service to taxpayers and the government as a whole providing more and improved utilities to the public (Keen and Slemrod, 2017).

Luttmer and Singhal, M. (2014) carried out a study to establish the effectiveness of taxpayer education on tax compliance for SMEs in Kitengela town. There are reasons why KRA never met its revenue targets and the revenue collected has never surpassed the target set aside by the commission. The non-compliance of tax by SMEs can be attributed to the tax gap that is available in every fiscal year. KRA conducts taxpayer education to all registered SMEs in an effort to improve the existing level of tax compliance. The only way KRA will meet their target revenue is when they include all SMEs in the generation of the revenue. The study was anchored on Theory of Reasoned Action and Fisher Tax Compliance Model while the study variables were PAYE form of tax, tax rates, tax compliance cost, tax penalties and fines. The study established that the effectiveness of taxpayer education on tax compliance and all the predictors as shown by beta coefficients: PAYE (? = 0.542); tax rates (? = 0.482) and tax penalties and fines (? = 0.632). However, the study established there is a positive but statistically insignificant relationship (? =0.06, p= 0.671>0.05) between tax compliance cost and tax payer education. The study concluded that tax rates, PAYE, tax penalties and fines contribute greatly to tax compliance and finally tax compliance cost have the most significant influence on tax compliance. The study recommends that KRA should have an office in every county that will address tax issues at county level and the services to be offered should include tax penalties, filing of tax returns, tax computation and tax differentiation.

Mascagni, Moore and McCluskey (2014) carried out a study to investigate the effect of tax behavior on growth of micro, small and medium enterprises: a case of butcheries in North of Nairobi tax region, Nairobi County. The specific objectives were to determine the effect of tax knowledge by taxpayers, tax compliance costs behaviour, and tax non-compliance cost behaviour on growth of micro, small and medium enterprises in North of Nairobi tax region, Nairobi County. The study was anchored on the theory of planned behaviour theory of economic entrepreneurship, and the economic deterrence theory. An explanatory design was employed. The target population for this research was 2500 licensed butcheries by Nairobi County Government in Kenya Revenue Authority tax region of North of Nairobi. The regression results showed that tax knowledge by taxpayers (β=0.488, p=0.000) had a positive and significant effect on growth of micro, small and medium enterprises. The results further showed that tax compliance costs (β= - 0.102, p=0.002) and tax non-compliance cost behavior (β= -0.223, p=0.000) have a negative and significant effect on growth of micro, small and medium enterprises. From the findings, the study concluded that it is important for micro, small and medium enterprises to employ employees that are knowledgeable on tax compliance matters. This will enhance their growth. The study further concluded that number of taxes and the amount of tax that micro, small and medium enterprises are required to pay to the government had greatly increased. In addition, the tax payment method is very clear to the micro, small and medium enterprises and this enables them to make frequent tax payments.

2.3.4 Low Income

Monkam and Moore (2015) examined how changes to the individual income tax affect long-term economic growth. The structure and financing of a tax change are critical to achieving economic growth. Tax rate cuts may encourage individuals to work, save, and invest, but if the tax cuts are not financed by immediate spending cuts, they will likely also result in an increased federal budget deficit, which in the long-term will reduce national saving and raise interest rates. The net impact on growth is uncertain, but many estimates suggest it is either small or negative. Base-broadening measures can eliminate the effect of tax rate cuts on budget deficits, but at the same time they also reduce the impact on labor supply, saving, and investment and thus reduce the direct impact on growth. However, they also reallocate resources across sectors toward their highest-value economic use, resulting in increased efficiency and potentially raising the overall size of the economy. The results suggest that not all tax changes will have the same impact on growth. Reforms that improve incentives, reduce existing subsidies, avoid windfall gains, and avoid deficit financing will have more auspicious effects on the long-term size of the economy, but may also create trade-offs between equity and efficiency.

The serious decline in financial performance of small enterprises in recent years had led to a decrease in profit available for tax obligation to the government. The need for small business enterprises to generate more returns from its internal sources has therefore become a matter of extreme urgency which has been linked with taxation of small business enterprise, especially in developing countries. Failure of small business enterprises has grown high, approximately by 80% of the business closed down before the 5th anniversary as a result of tax related issues, coming from multiple taxations to enormous tax burdens (Warren, 2016). Ochieng, Wawire, Manyasa and Kiguru (2014) carried out a study to assess the impact of taxation on financial performance of small business enterprises in Ugenya Sub –county, Siaya County in Kenya. To achieve the study aims, the following specific objective was used., To evaluate the impact of level of taxation awareness and knowledge on financial performance of SSEs in Ugenya sub-county, To assess the impact of tax rates on financial performance of SSEs in Ugenya sub-county, To evaluate the impact of tax administration criteria on financial performance of SSEs in Ugenya sub-county, To assess the impact of intended tax purpose on financial performance of SSEs in Ugenya sub-county. The study found that business entity is aware of the consequences of failing to pay tax obligations in time. The study found also that taxpayers take low tax rates in Kenyan tax rates in relations to financial performance. The findings indicated that tax administration improve tax payer’s convenience in tax assessment. The Equality of tax administration services provides the largest marginal revenues by reducing tax gaps.

Shikongo, Shikongo, Kakujaha-Matundu and Kaulihowa (2019) studied the influence on SMEs sector growth in Voi sub-County. Taxation was viewed in three spheres namely; tax rates, tax policy and the types of taxes and how each one of them affects growth of micro and small-sized enterprises in Voi sub-County .The study benefits the various stakeholders such as the traders who will understand taxation, taxes being one of the operational costs of business and are involuntary; the legislature (Parliament) who will get informed on areas to amend in the Tax Act and include parts that serves the public wholesomely; the Kenya Revenue Authority (KRA) that will use more appropriate methods when collecting taxes; the Voi sub County Government which will revise tax rates and make the necessary adjustment that will grow the county. The study established a significant correlation between taxation and the growth of the SMEs sector. From the findings of the study, it was concluded that high tax rates have a significant effect on the growth of SMEs. The better the tax rates the more the SMEs grow. If the tax rates are high, the profit margins of the firms become too small to improve on the scale and size of the business as the SMEs will hardly have enough capital to re-invest. It can be also concluded that better tax policies have a positive effect on the growth of SMEs thus the more favourable the tax policies are, the better the growth trends for SMEs. Types of taxes are concluded to have a significant effect on the growth of SMEs. Since the types of tax are determined by the level of income that the SMEs receive, if better and favourable types of taxes are adopted, then they would boost expansion of SMEs. It is the recommendation of this research report that more friendly tax policies be employed for start-up businesses such as tax holiday, or introducing a growth limit with a level that is sufficiently stable to sustain payment of taxes. The study is further of the view that the Tax agency, KRA, need to review its taxation procedures as well as heightened research on firm’s management procedures, the role of taxation policy and distribution of taxes in micro enterprises.

2.3.5 Tax Gap

The 'tax gap' is widely thought to be the difference between the amount of tax that a revenue authority should collect within its jurisdiction based upon the laws it has in operation in an annual accounting period and the actual amount of tax paid during that same period. It would seem logical that any government would want to know what their tax gap might be and to control it (Bakerand Murphy, 2019). Despite this, and the fundamental role tax has in any economy, whether viewed from the perspective of being government income; a tool for the delivery of a government's fiscal policy or as one of the largest likely overall components of spending for most people and organizations in that jurisdiction it is surprising how little attention is paid by many national governments to the tax gap.

Recent surveys of the number of governments preparing tax gap estimates (Murphy 2019) suggest, for example, that within the European Union only the United Kingdom prepares an annual tax gap estimate, which is a characteristic that also makes it unique in the world. In about half of all EU member states no local estimates of the tax gap are prepared, at all. In most others (Italy being the largest exception to this rule, bar the UK) the only tax gap usually considered is that for value added tax (VAT). This may be because the European Commission does itself consider this issue and publishes an annual report on the VAT gap, analysed by country for each EU member state (Bakerand Murphy, 2019).

Calculation of a tax policy gap assumes the existence of a normative version of the tax structure of a jurisdiction questions are posed that are at the very heart of a government's capacity to engage through taxation with the economy that it seeks to manage through its fiscal policy (Murphy, 2015). A normative structure of this type demands appraisal by a state of issues that most would seemingly rather avoid such as which of the available tax bases are to be subject to assessment, at what rates, and with what permissible variations delivered by way of higher and lower rates, allowances and reliefs. Issues are at the heart of taxation policy do, as a result, move within the scope of tax gap analysis (Hamilton, 2015).

Collecting taxes and fees is a fundamental way for countries to generate public revenues that make it possible to finance investments in human capital, infrastructure, and the provision of services for citizens and businesses. Preliminary analyses estimate the financing gap for achieving the Sustainable Development Goals for developing countries at about $2.5 trillion annually. Much of this financing gap will need to be met by increased private-sector investment in sustainability, which requires appropriate tax policies to create the needed price incentives (Bakerand Murphy, 2019). Yet, developing countries that are most in need of revenues, including fragile and conflict-affected states (FCS), often face the steepest challenges in collecting taxes. Taxes have a key role to play in making growth sustainable and equitable, especially in the context of the COVID-19 crisis, and through such efforts as "greening" tax systems and fighting tax evasion and avoidance (Mitchell, Wray and Watts, 2019).

Many countries are still struggling to collect sufficient revenues to finance their own development. Countries collecting less than 15% of GDP in taxes must increase their revenue collection in order to meet basic needs of citizens and businesses. This level of taxation is an important tipping point to make a state viable and put it on a path to growth. As of 2018, 48% of IDA/Blend countries and 69% of FCS countries fall below this 15% baseline. Making it easier to pay taxes improves competitiveness (Zucman, 2015). Overly complicated tax systems are associated with high levels of tax evasion, large informal sectors, more corruption, and less investment. Modern tax systems should seek to optimize tax collections while minimizing the burden on taxpayers to comply with tax laws. There is a need to ensure that the tax system is fair and equitable. Governments need to balance goals such as increased revenue mobilization, sustainable growth, and reduced compliance costs with ensuring that the tax system is fair and equitable. Fairness considerations include the relative taxation of the poor and the rich; corporate and individual taxpayers; cities and rural areas; formal and informal sectors, labor and investment income; and the older and the younger generations (Murphy, 2015).

2.4 Critique of the Literature

Empirical scrutiny of previous studies' outcome on tax gap and way of expanding tax base among SMEs in Kamukunji Jua-Kali Metal in Nairobi County, Kenya has been empirically inconclusive. Previous studies have produced mixed outcomes regarding the tax gap and way of expanding tax base among SMEs in Kamukunji Jua-Kali Metal in Nairobi County, Kenya. The past researchers explained in theoretical review demonstrated an effort towards addressing the tax gap and way of expanding tax base among SMEs in Kamukunji Jua-Kali Metal in Nairobi County, though this was conducted by different researchers with different views an effective conclusion was not arrived at, their studies involved suggestions and assumptions which could not be relied upon in times of assessing the tax gap and way of expanding tax base among SMEs in Kamukunji Jua-Kali Metal in Nairobi County. The past studied have not come up with solution on the tax gap and way of expanding tax base among SMEs in Kamukunji Jua-Kali Metal in Nairobi County.

2.5 Research Gaps

From the review of literature, a number of studies have been carried out on Tax gap and way of expanding tax base among SMEs in Kenya. Similarly, some of these studies focused on other sectors and not SMEs in Kenya. The current study seeks to address the contextual and conceptual gaps in literature by focusing on tax gap and way of expanding tax base among SMEs in Kamukunji Jua-Kali Metal in Nairobi County, Kenya.

2.6 Conceptual framework

See annex figure 1 Conceptual Framework

3. Methodology

3.1 Introduction

This chapter explains the research methodology which was used to conduct this study. It includes research design, target population, sampling procedures and techniques, sample size, validity and reliability tests, data collection methods and procedures, data analysis techniques and procedures.

3.2 Research Design

This study applied a mixed methods research approach. Mixed methods research approach is a research methodology that entails collection and analysis of both quantitative and qualitative data and integrating the finding in a single study.

The rationale of this type of research is that both quantitative and qualitative research combined gives a better comprehension of the research problem. In business and management field mixed methodology research is gradually gaining a great deal of popularity (Cameron, Sankaran & Scales 2015). The basis of this approach to validate and expand the quantitative results. This was implemented through the inclusion of a structured and semi-structured questionnaire. The results of the data were combined during interpretation and analysis (Creswell and Clark, 2011).

Research design has been defined as a plan and structure of investigation to questions used to generate solutions to research problems. This plan becomes the overall scheme of the study which gives an outline of the steps the researcher followed until the research is completed (Cooper & Schindler, 2014). The study adopted a descriptive research design approach in order to achieve its objectives. Descriptive research obtains information in current status of phenomenon and provides description of what exists in respect to variables in a particular situation. It thus comprises the plan for collecting, measuring and analysing of data. The descriptive research design is characterized by its ability to gather information from a large number of respondents. Another advantage of this design is the uniqueness of the information gathered which is primary data which is highly dependable. This method of research allows standardized measurement of information since the questions in the questionnaires are similar (Creswell, 2014).

3.3 Target Population

A target population is defined as all the elements having common observable pattern or characteristics that the research opts to make inferences (Cooper & Schindler, 2014). According to Muswazi and Nhamo (2013) target population is the total collection of elements of a hypothetical or real people, objects or events to which a researcher hopes to make generalization of the results. The study targeted MSEs in Kamukunji Jua-Kali in Nairobi County those registered with Kamukunji Jua-Kali Association. The population was divided as follows as informed by Kamukunji Jua-Kali officials.

See annex Table 1: Target Population

3.4 Sample and Sampling Techniques

Since it was not practical to cover the entire target population, this study used a simple random sampling technique to identify actual respondents. The target population of the 4000 registered craftsmen as obtained from the Kamukunji Jua-kali Association register formed the target population framework from which the sample size was derived. Codes were assigned to the MSEs and simple random sampling technique applied to select the sample size. Cooper and Schindler (2014) define sample population as a smaller portion of the whole target population. The sample size for this study was derived from Yamane (1967) formula as stated below;

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

Where n is the sample size, N is the population size and e is the margin of error.

$$n = \frac{4000}{1 + 4000 (0.05)2}$$

$$n = 364$$

The sample size was 364 participants from the above formula.

See annex Table 2: Sample Size

3.5 Data Collection Methods

The study used questionnaires. Questionnaires are research instruments which contain a set of questions intended to collect information from the sample population (Bist, 2015). Face-to-face guided interviews which involve quantitative and qualitative approaches of gathering data was applied to collect qualitative data (Saunders et al., 2012).

3.6 Data Collection Procedures

According to Saunders et al., (2012) business and management research may require use of combination of the two research methods (quantitative and qualitative or mixed methods) in a situation that calls for the usage of questionnaires to collect data and interview to provide answers for the open questions. Interview is chosen because of its ability to provide in-depth information. Face to face interviews reveal more information adding value to the study (Campbell et al., 2001; Nicholas et al., 2010; Synnot et al., 2014).

A likert scale of five points was employed to gather information on the closed ended questions. The researcher and the assistants requested the respondents to spare some time so as to go through the questionnaires together and help in filling them. There was an interpreter to give interpretation if any of the respondents required interpretation. It was however found that all the respondents understood English language.

3.7 Model Specification

Multiple regression analysis was conducted to establish the relationship between the legislation, corruption, knowledge, low income and tax gap. Multiple Regressions Analysis was done to analyse how a number of covariates affect a specific response to variable (Cohen, West and Aiken, 2003). Data coding, cleaning and categorizing was performed in accordance with each research indicator.

The relationship equation was shown as below;

$Y= \alpha+ \beta1\ X1+ \beta2\ X2 + \beta3X3+ \beta4\ X4 + \varepsilon$

Where Y=Tax gap

α= Constant term

$\beta1$= Beta Co-efficient

X1= Legislation

X2= Corruption

X3= Knowledge

X4= Low income

ε= Error term

3.8 Diagnostic Tests

3.8.1 Normality test

The normality of collected data was analysed by the use of Kolmogorov-Smirnov test and Shapiro-Wilk test. For all the probabilities that was greater than 0.05, the collected data was considered as normally distributed (Saunders, Lewis & Thornhill, 2012).

3.8.2 Multi-collinearity

The correlation coefficients were used to analyse the multi-collinearity of the collected data. As per the rule of thumb, correlation coefficients of more than 0.9 indicated substantial multi-collinearity. Variance inflation factor was also used to assist in measuring multi-collinearity, since it is more exhaustive than Pearson's coefficient of correlation.

3.8.3 Ethical Considerations

The researcher-maintained integrity while conducting the research, during data analysis and presentation. The research findings and interpretation were carried out honestly and objectively. The researcher ensured no doctoring of the results and the confidentiality of the respondents were strictly safeguarded. The researcher obtained informed consent from all respondents and ensured voluntary participation. Further, the researcher took the responsibility for the work undertaken and for the contribution of the whole study.

4. Data analysis

4.0 Introduction

This chapter covers data analysis, results and discussion of the study results. The study sought to determine the tax gap and way of expanding tax base among SMEs in Kamukunji Jua-Kali Metal in Nairobi County, Kenya.

4.1. Response Rate

See annex Table 4.1 presented the response rate

See annex Table 3: Response Rate

The table shows that from 364 respondents, 300 were completed and returned which was 82% of the total response rate, this indicates that there was good response.

4.2. Tests of Reliability

Reliability was tested using Cronbach's alpha. Reliability is the extent to which over a time, the results were for a time consistent and were presented accurately. It shows the characteristics of entire population under the study. A study is reliable if the results of a study can be reproduced with a similar methodology (Zikmund, 2010).

See annex Table 4: Reliability Tests

The reliability of the research tools was measured through pilot questionnaires. Cronbach's Alpha, measures internal coherence, was calculated by use of the SPSS software program version 21. The coefficients for legislation, corruption, knowledge and low income had a coefficient of 0.5 and above which is closer to 1 signifying that the instruments were reliable.

4.3 Demographic Data

The section provides information on demographics of the data on the respondents in the research and it is important to determine whether the people in a specific study target population are a representative sample of the target population as well as assessing the respondent's suitability to answering the questions for the general reasons. Demographic information included gender, age, educational and years in business.

4.3.1 Gender of Respondents

See annex Table 5: Gender of Respondents

The above table demonstrates that the sector had more men as compared to women who answered the questions.

4.3.2 Age Bracket of Respondents

The respondents were requested to name their age bracket. The findings are reported in Table 6, which shows the age of the respondents.

See annex Table 6: Age Bracket of Respondents

The respondents below 20 years were the minority recording 8%, between 21-30 years were 33%, and between 31-40 years were the majority at 48%, above 41 years were 11%. This shows that a big number of the participating respondents had matured who provided reliable information about the tax gap and way of expanding tax base among SMEs in Kamukunji Jua-Kali Metal in Nairobi County, Kenya.

4.3.3 Highest Level of Education

The study aimed at establishing the respondent's educational level.

See annex Table 7: Education Level of Respondents

Among the respondents (56%) had primary school education, (40%) secondary school education (3%) had diploma education and 1% university level education which shows most respondents had gone through school and provides more information on entrepreneurial orientation on tax gap and way of expanding tax base among SMEs in Kamukunji Jua-Kali Metal in Nairobi County, Kenya.

4.3.4 Number of Years in Business

Table 8 below shows the number of years in business for respondents who participated in the study.

See annex Table 8: Number of Years in Business

A big number of those who responded were 30% were between 6-10 years, (24%) 1-5 years, (20%) below one year, (17%) 11-20 years and (9%) 21 years and above, this indicates most of the respondents have been working in the business for some time and they were they answered questions on tax gap and way of expanding tax base among SMEs in Kamukunji Jua-Kali Metal in Nairobi County, Kenya.

4.4 Descriptive Statistics

See annex Table 9: Legislation

Table 9 shows summary on legislation. On whether SMES have complied with the existing laws for taxation, majority of respondents were neutral as shown by (Mean=3.2000 Standard Deviation=1.20201), this shows that SMEs have not fully complied with the existing taxation laws thus increasing the tax gap. Majority of respondents were neutral that SMEs have complied with policies on taxation as evidenced by (Mean=2.7133 Standard Deviation=1.51398), this shows that SMEs have not fully complied with the existing taxation policies thus increasing the tax gap. On whether SMEs have complied with the permits required to operate, majority of respondents agreed as shown by (Mean=4.3400 Standard Deviation=0.79572), this shows that majority of the SMEs had permits. Majority of respondents agreed that SMEs have complied with the licenses required to operate as evidenced by (Mean=4.3400 Standard Deviation=0.79572), this shows that majority of respondents have complied with licenses requirements which is a step in reducing the tax gap. On whether SMEs have implemented standards needed for taxation, majority of respondents disagreed ad shown by (Mean=2.4433 Standard Deviation=1.06955), this shows that SMEs have yet to comply with taxation standards thus leading to an increase in taxation gap.

See annex Table 10: Corruption

Table 10 above shows summary on corruption. On whether SMEs have upheld high tax morality, majority of respondents disagrees as shown by (Mean=2.4500 Standard Deviation=0.53709), this shows that there is lack of morality in payment of taxes which contributed to widening of tax gap between SMEs and other sectors of the economy. Majority of respondents were neutral that there has been extortion of money for tax evaders as shown by (Mean=2.6733 Standard Deviation=0.55466), this shows that extortion was a major problem leading to widening of tax gap among the SMEs. On whether there is low tax governance in tax administration, majority of respondents agreed as evidenced by (Mean=3.5567, Standard Deviation=0.86561), this shows that the issues of governance in tax administration have been a major factor contributing to tax gap among SMEs in Kenya. Majority of respondents strongly agreed that SMEs experiences cases of tax evasion, this is demonstrated by (Mean=4.5833, Standard Deviation=0.53292), this shows that tax evasion has been a major issue among SMEs which contributed to increased tax gap.

See annex Table11: Knowledge

Table 11 shows the Summary on Knowledge. On whether SMEs have knowledge on various taxes they should pay, majority of respondents disagreed as shown by (Mean=2.3567, Standard Deviation=0.71495), this shows that the taxation authority has not invested resources in tax education which contributed to little knowledge on various taxes that SMEs should pay, this contributes to increase in tax gap. Majority of respondents were neutral that SMEs have access to information on tax matters as demonstrated by a (Mean=2.9200, Standard Deviation=0.51752), this shows that SMEs had little access on information on taxation matters hence leading to non-compliance and increasing tax gap. On whether SMEs have knowledge on importance of tax registers, majority of respondents were neutral as shown by (Mean=3.4333, Standard Deviation=0.57735), this shows that there was little knowledge on importance of implementing tax registers in their businesses thus contributing to tax gap. Majority of respondents agreed that the government creates awareness on importance of tax compliance as shown by (Mean=4.0467, Standard Deviation=0.62111), this shows that there has been efforts to create awareness on importance of tax compliance but has net been effective in reducing the tax gap.

See annex Table 12: Income

Table 12 shows effect of income on taxation gap, majority of respondents disagreed that SMEs have been experiencing low profitability as evidenced by (Mean=2.4500, Standard Deviation=0.64463), this shows that SMEs had registered some profitability but failed to comply with taxation. On whether SMEs benefits from reduced tax subsidies majority of respondents were neutral as demonstrated by a mean of (Mean=2.5900, Standard Deviation=0. 56831), this shows that SMEs did not benefit from tax subsidies since they had not complied with the relevant taxation laws thus leading to increased tax gap. Majority of respondents were neutral that there are tax incentives for poor performing SMEs as evidenced by (Mean=3.1133, Standard Deviation=0.54296), this shows that tax incentives did not benefit majority of SMEs as they did not comply with taxation laws. Majority of respondents agreed that high taxation increases the operational cost of SMEs, this was shown by (Mean=4.0067, Standard Deviation=0.60097), this shows that SMEs were not highly taxed.

See annex *Table 13: Tax Gap*

Table 13 shows summary on Tax gap. On whether creating awareness on tax compliance reduces tax gap among SMEs, majority of respondents agreed as shown by (Mean=4.3700, Standard Deviation=0.68410), this shows that awareness on taxation reduces tax gap by providing information on tax compliance. Majority of respondents agreed that tax allowances reduce tax gap among SMEs as demonstrated by (Mean=4.3400, Standard Deviation=0.79572), this shows that tax allowance was important in reducing the gap between SMEs. On whether tax rate calculations help reduce tax gap among the SMEs, majority of respondents agreed as shown by (Mean=4.3267, Standard Deviation=0.80131), this shows that the current tax calculations method did not favor SMEs which contributed to increased tax gap. On whether tax equity ensures reduces tax gap among SMEs as evidenced by (Mean=4.3400, Standard Deviation=0.78727), this shows that tax equity would be an effective measure for reducing tax gap in SMEs sector.

4.5 Diagnostic Test

4.5.1 Normality Tests

See annex Table 14: Kolmogorov-Smirnor& Shapiro-Wilk Normality Test

Table 14 presents the results from two well-known tests of normality, namely the Kolmogorov-Smirnov Test and the Shapiro-Wilk Test. value of the Shapiro-Wilk Test is less than 0.05, the data significantly deviate from a normal distribution.

4.5.2 Multicollinearity

See annex Table 15: Multicollinearity Test

Based on coefficient output, collinearity statistics obtained VIF value of 1.049 for legislation, 1.027 for corruption, 1.032 knowledge and 1.017 for low income, meaning that the VIF value obtained is between 1 to 10. It can be concluded that there is no multicollinearity (similarity) symptoms between independent variables as shown in table 15

See annex Table 16 Correlation

Table 12 above shows that there is a positive correlation between legislation and tax gap, the relationship is significant at ($r = 0.297$, $p > 0.05$), thus legislation had an effect on tax gap. There was a positive correlation between corruption and tax gap, the relationship is significant at ($r = 0.022$, $p > 0.05$), thus corruption influenced tax gap. There was a positive correlation between knowledge and tax gap, the relationship is significant at ($r = 0.086$, $p > 0.05$), thus knowledge influenced tax gap. The table further demonstrates that there is a negative correlation between income and tax gap, the relationship is significant at ($r = -0.007$, $p<0.01$), thus income had no influence on tax gap.

4.6 Regression Analysis

This section represents regression analysis on the tax gap and way of expanding tax base among Smes in Kamukunji Jua-Kali Metal in Nairobi County, Kenya. The section offers the regression analysis centered around the study objectives

See annex Table 17: Model Summary

Table 17 shows the multiple regressions results. The value of R2 is 0.092, reveals 9.2% variability of factors relating to legislation, corruption, knowledge and income contributed to tax gap variables in the model developed. The adjusted R2 showed improved estimation in a population. The adjusted R2 value is 0.079. The measure adjusted provided the revised estimates, 7.9% variability in factors relating to legislation, corruption, knowledge and income accounted for performance, this shows the model is good.

ANOVA for legislation, corruption, knowledge, income and tax gap was done and the results presented on Table 18. A p-value of 0.000 which is less than 5% level of significance implies that legislation, corruption, knowledge, income have statistical significance on tax gap.

See annex Table 19: Coefficientsa

The study further determined the beta coefficients for legislation, corruption, knowledge and income. The results showed that the beta coefficient legislation, corruption, knowledge and income was 0.203, -0.022, 0.043 and -0.032 which helps to generate the model $Y=3.685 +0.203X1+ -0.22X2+0.043X3 +-0.032X4$ for legislation, corruption, knowledge and income versus taxation. This model implies that every per unit increase in legislation leads to 0.203 increase in tax gap. An increase in corruption leads to -0.022 decrease in tax gap. A unit increase in knowledge leads to 0.043 increases in tax gap. An increase in income leads to -0.032 decrease in tax gap as shown in table 19.

5. Findings and discussions

5.1 Introduction

This chapter summarizes the main results of the study and provides conclusions and recommendations relevant to the research objectives. The summary is based on the results of descriptive and inferential statistical analysis. This chapter also provides areas for further research.

5.2 Summary of Finding

5.2.1 Legislation and Tax Gap

On whether SMES have complied with the existing laws for taxation, majority of respondents were neutral as shown by (Mean=3.2000 Standard Deviation=1.20201). Majority of respondents were neutral that SMEs have complied with policies on taxation as evidenced by (Mean=2.7133 Standard Deviation=1.51398). On whether SMEs have complied with the permits required to operate, majority of respondents agreed as shown by (Mean=4.3400 Standard Deviation=0.79572). Majority of respondents agreed that SMEs have complied with the licenses required to operate as evidenced by (Mean=4.3400 Standard Deviation=0.79572). On whether SMEs have implemented standards needed for taxation, majority of respondents disagreed ad shown by (Mean=2.4433 Standard Deviation=1.06955). There is a positive correlation between legislation and tax gap, the relationship is significant at ($r = 0.297$, $p > 0.05$).

5.2.2 Corruption and Tax Gap

On whether SMEs have upheld high tax morality, majority of respondents disagrees as shown by (Mean=2.4500 Standard Deviation=0.53709). Majority of respondents were neutral that there has been extortion of money for tax evaders as shown by (Mean=2.6733 Standard Deviation=0.55466). On whether there is low tax governance in tax administration, majority of respondents agreed as evidenced by (Mean=3.5567, Standard Deviation=0.86561). Majority of respondents strongly agreed that SMEs experiences cases of tax evasion, this is demonstrated by (Mean=4.5833, Standard Deviation=0.53292). There was a positive correlation between corruption and tax gap, the relationship is significant at ($r = 0.022$, $p > 0.05$).

5.2.3 Knowledge and Tax Gap

On whether SMEs have knowledge on various taxes they should pay, majority of respondents disagreed as shown by (Mean=2.3567, Standard Deviation=0.71495). Majority of respondents were neutral that SMEs have access to information on tax matters as demonstrated by a (Mean=2.9200, Standard Deviation=0.51752). On whether SMEs have knowledge on importance of tax registers, majority of respondents were neutral as shown by (Mean=3.4333, Standard Deviation=0.57735). Majority of respondents agreed that the government creates awareness on importance of tax compliance as shown by (Mean=4.0467, Standard Deviation=0.62111). There was a positive correlation between knowledge and tax gap, the relationship is significant at ($r = 0.086$, $p > 0.05$), thus knowledge influenced tax gap.

5.2.4 Income and Tax Gap

Majority of respondents disagreed that SMEs have been experiencing low profitability as evidenced by (Mean=2.4500, Standard Deviation=0.64463). On whether SMEs benefits from reduced tax subsidies majority of respondents were neutral as demonstrated by a mean of (Mean=2.5900, Standard Deviation=0. 56831). Majority of respondents were neutral that there are tax incentives for poor performing SMEs as evidenced by (Mean=3.1133, Standard Deviation=0.54296). Majority of respondents agreed that high taxation increases the operational cost of SMEs, this was shown by (Mean=4.0067, Standard Deviation=0.60097). The table further demonstrates that there is a negative correlation between income and tax gap, the relationship is significant at ($r = -0.007$, $p<0.01$), thus income had no influence on tax gap.

5.3 Conclusion

The study concludes that, SMEs have not fully complied with the existing taxation laws thus increasing the tax gap. SMEs have not fully complied with the existing taxation policies thus increasing the tax gap. Majority of the SMEs had permits. Majority of respondents have complied with licenses requirements which is a step in reducing the tax gap. SMEs have yet to comply with taxation standards thus leading to an increase in taxation gap. There is lack of morality in payment of taxes which contributed to widening of tax gap between SMEs and other sectors of the economy. Extortion was a major problem leading to widening of tax gap among the SMEs. The issues of governance in tax administration have been a major factor contributing to tax gap among SMEs in Kenya. Tax evasion has been a major issue among SMEs which contributed to increased tax gap.

The taxation authority has not invested resources in tax education which contributed to little knowledge on various taxes that SMEs should pay, this contributes to increase in tax gap. SMEs had little access on information on taxation matters hence leading to non-compliance and increasing tax gap. There was little knowledge on importance of implementing tax registers in their businesses thus contributing to tax gap. There has been efforts to create awareness on importance of tax compliance but has not been effective in reducing the tax gap.

SMEs had registered some profitability but failed to comply with taxation. SMEs did not benefit from tax subsidies since they had not complied with the relevant taxation laws thus leading to increased tax gap. Tax incentives did not benefit majority of SMEs as they did not comply with taxation laws. Awareness on taxation reduces tax gap by providing information on tax compliance. Tax allowance was important in reducing the gap between SMEs. The current tax calculations method did not favor SMEs which contributed to increased tax gap. Tax equity would be an effective measure for reducing tax gap in SMEs sector.

5.4 Recommendations

Th study recommends that SMEs need to comply with the existing laws and policies so as to reduce the tax gap. Every SME should have permit in place to ensure that they meet legal requirements from the government. SMEs needs to comply with the set standards for the goods and services so as to comply with the set laws. The government should monitor SMEs to ensure their compliance with tax requirements. When these measures are put in place, they will go a long way in reducing the tax gap.

Kenya revenue authority should carry awareness among SMEs on the importance of tax morality. Stiff penalties and even jail terms should be imposed on those who collude to engage in tax morality. KRA should work closely with security agencies so as to arrest their officials and SMEs owner's who engage in extortion with the aim of abating tax evasion. KRA should train staff on governance when it comes to tax administration, this will ensure SMEs comply with payment of taxes thus reducing the tax gap.

KRA should invest resources aimed at creating awareness on the importance of tax compliance among the SMEs. SMEs owners and managers should be trained on various taxes they should pay and importance of filling tax returns. KRA should ensure that SMEs have access to information all the time to ensure that their queries regarding tax payments are answered. KRA should conduct regular inspections to ensure SMEs implement electronic tax registers in their premises to ensure real-time tax payments.

KRA should come up with an effective method of measuring the profitability of SMEs to ensure that the right taxes are paid. KRA should provide tax incentives and subsidies to SMEs that are struggling financially to ensure that they continue operating their businesses. KRA should come up with a new method of calculating profit among the SMEs to ensure there is compliance and reduced tax gap.

5.5 Areas for Further Studies

The study aimed at ascertaining the tax gap and way of expanding tax base among Smes in Kamukunji Jua-Kali Metal in Nairobi County, Kenya. The research findings narrowed into four sub-variables namely; legislation, corruption, knowledge and income. Suggestion for further study is recommended to identify other tax gap and way of expanding tax base among Smes in Kamukunji Jua-Kali Metal in Nairobi County, Kenya. Further research is necessary to examine the tax gap and way of expanding tax base in other sectors of the economy.

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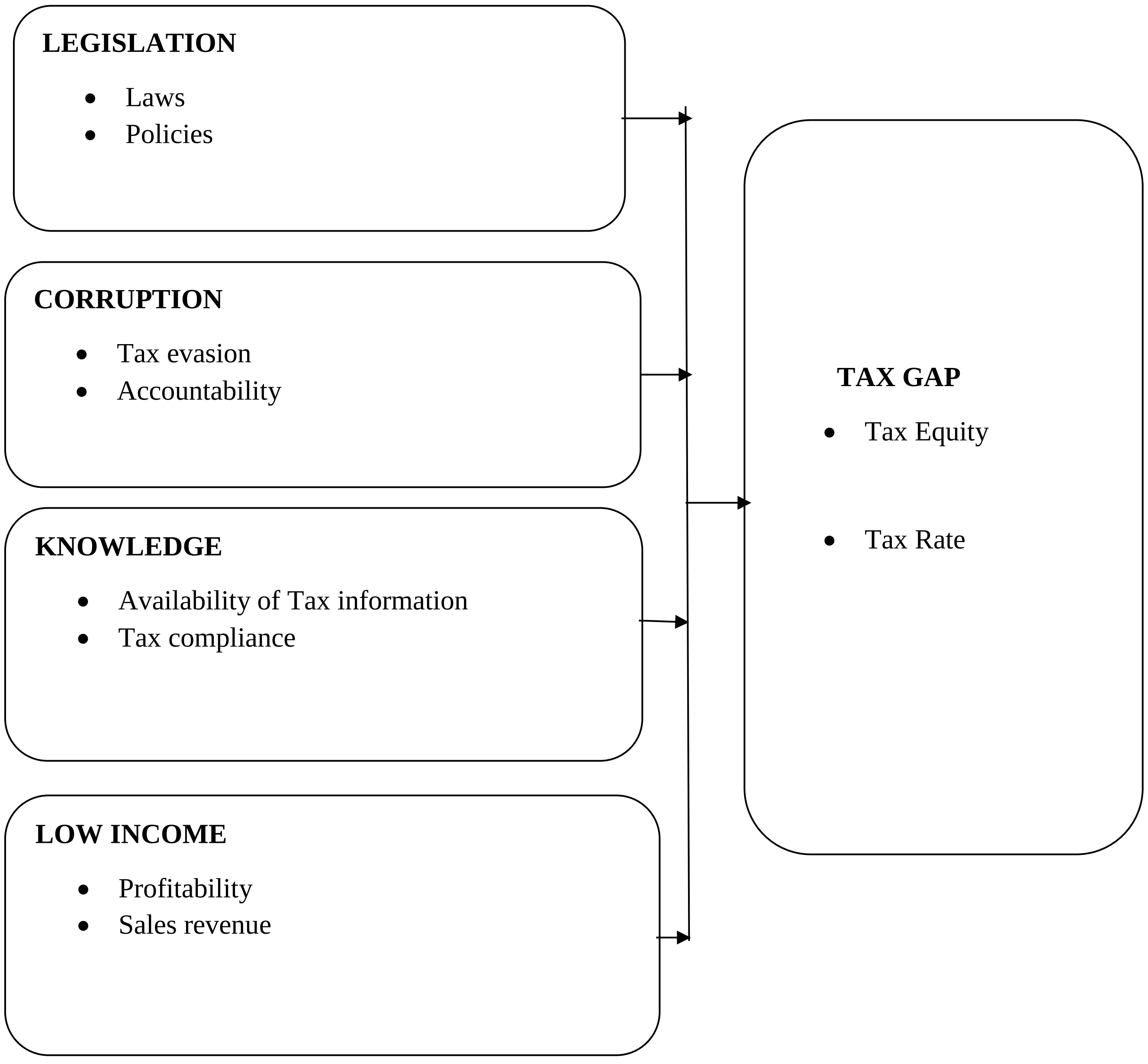
Annex

Figure 1: Conceptual Framework

Independent Variable



Source; Author, 2022

Table 1: Target Population

Category	Target Population	Percentage
Agricultural Products	800	20%
Building Supplies	1200	30%
Kitchen wares (cooking)	1500	37.5%
Electrical Appliances	500	12.5%
Total	**4000**	**100**

Table 2: Sample Size

Category	Target Population	Sample Size	Percentage
Agricultural Products	800	81	10%
Building Supplies	1200	99	8%
Kitchen wares (cooking)	1500	120	8%
Electrical Appliances	500	64	13%
Total	**4000**	**364**	**39%**

Table 3: Response Rate

Response	Frequency	Percentage
Unreturned questionnaires	64	18
Returned questionnaires	300	82
Total	**364**	**100**

Table 4: Reliability Tests

Category	Cronbach Alpha	No. of Items	Remarks
Legislation	0.859	6	Accepted
Corruption	0.754	5	Accepted
Knowledge	0.884	5	Accepted
Low Income	0.812	5	Accepted

Table 5: Gender of Respondents

Response	Frequency	Percentage
Male	211	70
Female	89	30
Total	**300**	**100**

Table 6: Age Bracket of Respondents

Category	Frequency	Percentage
Below 20 years	33	8
21-30 years	100	33
31-40 years	143	48
Above 41 years	24	11
Total	**300**	**100**

Source: Kamukunji Jua Kali Metal, Nairobi (2022)

Table 7: Education Level of Respondents

Category	Frequency	Total
Primary school Level	167	56
Secondary school	121	40
Diploma Level	10	3
University Level	2	1
Total	**300**	**100**

Source: Kamukunji Jua Kali Metal, Nairobi (2022)

Table 8: Number of Years in Business

Category	Frequency	Percentage
Below 1 year	61	20
1-5 years	71	24
6-10 years	90	30
11-20 years	50	17
21 years and above	28	9
Total	**300**	**100**

Source: Kamukunji Jua Kali Metal, Nairobi (2022)

Table 9: Legislation

	N	Mean	Std. Deviation
SMEs have complied with laws in place for taxation	300	3.2000	1.20201
SMEs have complied with policies on taxation	300	2.7133	1.51398
SMEs have complied with the permits required to operate	300	4.3400	.79572
SMEs have complied with the licenses required to operate	300	4.3400	.79572
SMEs have implemented standards needed for taxation	300	2.4433	1.06955

Table 10: Corruption

	N	Mean	Std. Deviation
SMEs have upheld high tax morality	300	2.4500	.53709
There has been extortion of money for tax evaders	300	2.6733	.55466
There is low tax governance in tax administration	300	3.5567	.86561
SMEs experiences cases of tax evasion	300	4.5833	.53292

Table11: Knowledge

	N	Mean	Std. Deviation
SMEs have knowledge on various taxes they should pay	300	2.3567	.71495
SMEs have access to information on tax matters	300	2.9200	.51752
SMEs have knowledge on importance of tax registers	300	3.4333	.57735
The government creates awareness on importance of tax compliance	300	4.0467	.62111

Table 12: Income

	N	Mean	Std. Deviation
SMEs have been experiencing low profitability	300	2.4500	.64463
SMEs benefits from reduced tax subsidies	300	2.5900	.56831
There are tax incentives for poor performing SMEs	300	3.1133	.54296
High taxation increases the operational cost of SMEs	300	4.0067	.60097

Table 13: Tax Gap

	N	Mean	Std. Deviation
Creating awareness on tax compliance reduces tax gap among SMEs	300	4.3700	.68410
Tax allowances reduces tax gap among SMEs	300	4.3400	.79572
Tax rate calculations helps reduce tax gap among the SMEs	300	4.3267	.80131
Tax equity ensures reduces tax gap among SMEs.	300	4.3400	.78727

Table 14: Kolmogorov-Smirnor& Shapiro-Wilk Normality Test

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Performance of MSEs	.137	300	.000	.946	300	.000

a. Lilliefors Significance Correction

Source: Kamukunji Jua Kali Metal, Nairobi (2019)

Table 15: Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	LEGISLATION	.953	1.049
	CORRUPTION	.974	1.027
	KNOWLEDGE	.969	1.032
	LOW INCOME	.983	1.017

a. Dependent Variable: TAX GAP

Table 16 Correlation

Correlations						
		LEGISLATION	CORRUPTION	KNOWLEDGE	LOW INCOME	TAX GAP
LEGISLATION	Pearson Correlation	1	.143*	.156**	.093	.297**
	Sig. (2-tailed)		.013	.007	.108	.000
	N	300	300	300	300	300
CORRUPTION	Pearson Correlation	.143*	1	.068	.073	.022
	Sig. (2-tailed)	.013		.240	.206	.698
	N	300	300	300	300	300
KNOWLEDGE	Pearson Correlation	.156**	.068	1	.083	.086
	Sig. (2-tailed)	.007	.240		.152	.136
	N	300	300	300	300	300
LOW INCOME	Pearson Correlation	.093	.073	.083	1	-.007
	Sig. (2-tailed)	.108	.206	.152		.901
	N	300	300	300	300	300
TAX GAP	Pearson Correlation	.297**	.022	.086	-.007	1
	Sig. (2-tailed)	.000	.698	.136	.901	
	N	300	300	300	300	300

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

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

Table 17: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.303[a]	.092	.079	.37391

a. Predictors: (Constant), LOW INCOME, CORRUPTION, KNOWLEDGE, LEGISLATION

Table 18: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.159	4	1.040	7.438	.000[b]
	Residual	41.243	295	.140		
	Total	45.402	299			
a. Dependent Variable: TAX GAP						
b. Predictors: (Constant), LOW INCOME, CORRUPTION, KNOWLEDGE, LEGISLATION						

Table 19: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.685	.289		12.766	.000
	LEGISLATION	.203	.039	.296	5.212	.000
	CORRUPTION	-.022	.060	-.020	-.362	.718
	KNOWLEDGE	.043	.054	.045	.790	.430
	LOW INCOME	-.032	.048	-.037	-.661	.509
a. Dependent Variable: TAX GAP						