Effects of tax reforms on tax compliance for small and medium enterprises in Nairobi: a study of selected business enterprises in Nairobi county

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Abstract

Taxation is the critical source of revenue that the government of Kenya uses to provide public services to its citizens. Failure by KRA to meet its revenue targets for the period 2017/2018, can be attributed to the non-compliance of SMEs. Several SMEs, especially in the informal sector, are not taxed again raising equity questions. This study aimed at establishing the effects of tax reforms on tax compliance of SMEs in Nairobi County. The study adopted a quantitative research approach with close-ended questionnaires. The research design for the study was cross-sectional and correlational. Questionnaires were received from 135 managers of SMEs, and data analysed with the help of SPSS v24.0. The study established that administrative tax reforms are a significant influence in shaping the decisions for the tax compliance of SMEs; The overall study model was substantial. This implies that policy tax reforms have a considerable impact on decisions for tax compliance for SMEs and technological tax reforms have a relative influence on tax compliance decisions by SMEs. The study has linked administrative tax reforms, policy tax reforms, technical tax reforms, and tax compliance. The study recommends that KRA should do more in implementing reforms and such as publicize the prosecution of non-tax compliant, provide an incentive for compliance given, provide the opportunity for voluntary compliance.

Key Words: Kenyan Tax System, Tax Compliance, SMEs, KRA, Tax Reforms

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1. Introduction

Taxation is the known useful source of public finance in many economies, besides other sources like non-tax revenue such as user-fees and licenses charged for services rendered by government departments and agencies and foreign aids. The tax collected by governments depends on taxpayers' voluntary compliance whereby the taxpayers fulfill their tax obligation wholly and freely. However, developing economies face challenges of raising sufficient tax revenue to finance the ever-increasing public expenditures due to noncompliance amongst the taxpayers (Marti, 2010). Tax reforms aim to enhance compliance and shape public opinion on the importance of tax laws hence impacting positively on compliant taxpayers. Tax reforms for SMEs' may specifically include enacting the particular type of tax regime, which is different from the regular tax regimes for large enterprises and administrative changes. The special tax regimes for SMEs include granting tax exemption as incentives, for instance, in India, where agriculture is exempted from the income tax (Arachi & Santoro, 2007).

According to World Bank (2015), SME includes those enterprises that are either formally registered business, with an annual turnover of between Kenya Shillings 8 million to 100 million, with an asset base of at least Kenya Shillings 5 million or employ between 5 to 150 employees. While in Nairobi, the Sessional Paper No. 3 of 2004 defines SMEs as an enterprise with between 1 to 50 employees, and the SME bill 2011 determines MSEs based on the number of people/employees and the company's annual turnover. The SME accounts contribute 35-50 percent of global Gross Domestic Products. SMEs are the dominant and vast majority of firms in many economies in the world; for instance, on average, over 90% of enterprises in developing countries like in Africa. SMEs play a vital role in contributing to economic development, increase household income, and create jobs among youths (Cynthia, 2009).

Like other profit-generating entities, SMEs are also expected to pay their taxes, but the concern is how much tax should they be levied. SMEs are volatile establishments that need special treatment. Most of them remain in the informal sector because they feel the cost of compliance is too high. A considerable number of those who pay only do so because they are coerced by the authorities. Since the individual SME pays a very small amount of tax compared to what the larger establishment would pay, tax authorities tend to give the larger corporations more attention. This means a good number of SMEs get away with not paying their taxes; hence revenue that would otherwise have been invested in development projects that will end up being of benefit even to the SMEs is lost. This, therefore, is a situation that needs to be corrected, given that their overall tax revenue contribution hardly goes beyond five percent of total tax collection (Mutua, 2011). They are commonly referred to as hard to tax taxpayers characterized by low tax compliance, which can be either by ignorance or by intent (OECD, 2012).

SMEs are taxed under presumptive tax, just like turnover tax based on a percentage of gross or adjusted net income of the enterprises or progressive based on SMEs' sectors. The turnover tax has been used in counties such as Ukraine and Bolivia, based on a standard flat-rate tax on sales less limited expenses and in Uganda where all industries with annual turnover above a given limit are taxed at a fixed percentage (Masinde, 2012). Tax reforms aim to enhance compliance and shape opinions on the importance of tax laws hence impacting positively on compliant taxpayers. SMEs' tax reforms specifically include enacting the special type of tax regime, which is different from the normal tax regimes for large enterprises and administrative reforms. The special tax regimes for SMEs include granting tax exemption as incentives, for instance, in India, where agriculture is exempted from the income tax (Arachi & Santoro, 2007). SMEs are taxed under presumptive tax just like other turnover tax based on a percentage of gross or adjusted net income of the enterprises or progressive based on SMEs' sectors. The turnover tax has been used in Ukraine and Bolivia based on a standard flat-rate tax on sales less limited expenses and in Uganda where all industries with annual turnover above a given limit are taxed at a fixed percentage (Masinde, 2012).

Tax Reforms

Tax Modernization Program (TMP) was initiated in 1986 as part of the Structural Adjustment Programmes (SAP) incorporated in the economic restructuring agreement between the Government of Kenya and the International Financial Institutions such as the World Bank and IMF. A country may decide to contend with the plague, or on the flip side, others may choose to change the fiscal policies, which one of them include taxation reforms. The reforms aim at increasing the voluntary compliance as a result of deterrent policies and foster effective tax administration (Michael, Makarius, & Samuel, 2009). Besides, the main tax reform in Kenya occurred under the tax modernization program that started in the late 1980s. The tax reforms strategies adopted in Kenya took a piecemeal mode of transition in order to curb the soaring plague of budget deficits increase compliance levels among taxpayers. Currently, Kenya has adopted the various taxes reform strategies of which took effect in the following dimensions: The administrative tax reforms, policy tax reforms, and technological tax reforms (Masinde, 2012).

Administrative Tax Reforms

Tax administration refers to the implementation aspect of "how to do it" in respect of a tax system. It is the available mechanisms for the attainment of "what to do" in respect of the various taxes. It is therefore clear from the multiple initiatives that the government has involved itself more with the development and introduction of gadgets to deal with tax administration. Self-assessment System (SAS) and in this way, the tax payer can remit taxes without involvement or coercion by tax agents. This is made possible through the introduction of the Personal Identification Number (PIN) or Taxpayer Identification Number (TIN) for proper identification and tracking of taxpayers(KRA, 2014). Tax clinics and seminars are forums organized by the Kenya Revenue Authority periodically for taxpayer education programs in different locations to assist in tax knowledge. Tax summits are also a key component of the tax education forum in which various industry stakeholders are invited to give key recommendations that will improve tax administration and the tax culture (OECD, 2012).

Policy Tax Reforms

The reforms are aimed at providing a holistic approach to taxpayer compliance related matters. Some of the policy tax reforms include Advalorem taxes: This actually means that tax is charged on the value of the commodity rather than on the type of the commodity. The objective being to ensure that prices were kept in line with domestic inflation and to maintain the level of revenue in real terms. The main example of such taxes is an excise tax and the turn over tax for business with a turnover of less than 5million (Bhatia, 2010). The introduction of the Simba system ensured the modernization of the customs department to conventional international standards. In government offices, it has been recommended before a business transaction; it should be mandatory to provide or show the certificate of Tax compliance; this will ensure compliance. It, however, depends on co-operation from other government offices (KRA, 2014).

Technological Tax Reforms

i -Tax system was launched in 2011 after it was developed by Indian firm Tata, and implemented by KRA. It was introduced after the inefficiencies experienced by ITMS. iTax is an improvement of a previous online system by KRA called the Integrated Tax Management System (ITMS), rolled out in 2007, the system failed to sort all taxation issues and spawned serious customer dissatisfaction. With the new system, taxpayers will be able to register, file returns, make payments and enquire about their status while monitoring their accounts in real-time 24 hours a day, from the comfort of their homes or offices. The system will also eliminate rogue agents who defraud taxpayers by keeping out-dated electronic registers of tax agents. Currently, iTax allows employees to see their ledgers showing their pay as you earned remittances unlike before when this information was not readily available. Apart from the obvious benefit of not having to manually file tax returns or queue at KRA offices for registration, the new system sends a user confirmation upon successful payment registration, electronic return filing, and actual tax payments (KRA, 2016).

Tax compliance covers fulfilling all tax obligations as specified by the law wholly and freely. SMEs constitute untapped revenue potential and an uneven playing field in many countries (Kanyi & Kalui, 2014); as such, they need to be captured by the tax net. However, though legislations are the necessary regulator for protection of the business environment and security of the economic agents, for the establishment of the necessary social security regulations, they may also hamper compliance and the growth of the business through additional expenditures and administrative obstacles. Manzo, (2011) stated that for a tax system to be efficient, the tax policy needs to be designed such that the tax rates are appropriate and rational, the exemptions are lower in amount, the tax collection organization are more efficient, the tax burden should be lighter, and the fight against corruption and tax evasion should be much more intense. Tax policies can be designed in such a way that they do not only directly affect SMEs but also indirectly push for voluntary compliance and their growth.

Manzo, (2011), emphasized and declared that special tax regimes for SMEs might be appropriate policy instruments for minimizing the cost of collection. Because awareness of the dangers of inadequate taxation of SMEs has grown because of the potential of uneven tax enforcement to cause distortions of competition, voluntary compliance by larger enterprises and by wage earners, (Tax Justice Network Africa, 2011), government intervention should help maintain balance while ensuring that countries exploit the social benefits from greater competition and entrepreneurship. SMEs' taxation should be simple, consistent, and predictable, should lower compliance and administrative costs, and hence reduce the uncertainty faced by taxpayers as well as improve the levels of voluntary compliance (Marti, 2010).

2. Statement of the Problem

The major tax reforms in Nairobi started from the mid-1980s under tax modernization programs (TMP) since between before the 1980s, the government incurred minimal fiscal deficits and able to contain its expenditure within the recurrent revenue limits. The aim of TMP was to enhance saving and investment, enhance equity, increase compliance through low and rationalized tax rates, wider tax bases, and improve tax administration by sealing leakage loopholes. The rationale for forming KRA in 1995 was articulated under TMP to improve tax administration and implement organizational reforms in order to modernize tax administration. The next phase in tax policy changes under NARC government (2003-2008) and coalition government (2008-2012) from 2003/04 to 2008/2009, so far, have evolved around on ensuring equity, further widening of the tax base, promote increased investment and reduce compliance costs. The change includes an increase of personal relief by ten percent in 2004/05and threshold turnover for VAT from Kshs.3 million to Kshs.5

million from 16th June 2006. An amnesty in 2004/05 on fines, penalties, and interest on tax arrears prior to 11 June 2004, whereby the taxpayers were required to disclose and pay under-paid duties and taxes by 31 December 2004.

From 1st of January 2008, the government introduced a turnover tax (ToT) at a tax rate of 3 percent of gross receipts is applicable for businesses with an annual turnover of Kshs.5 million and below. In 2008/09, the VAT Act was amended to exempt taxpayers who are subject to the turnover tax. The KRA's tax functions were reorganized with ICT driven to aid online self-assessment and better to align them with the other tax policy reforms. Further, KRA continued educating and guiding taxpayers to pay taxes through banks and not KRA counters in order to reduce revenue leakages. Despite tax reforms, there is considerable revenue leakage with the continued existence of the untaxed informal sector exhibiting varied tax behaviors relative to the formal sector. The taxpayer's behaviors, like not keeping records, negative attitudes, and influence among the SMEs, could have an impact on tax compliance (Parliamentary Budget Office, 2011). The turnover tax targeted an additional 20,000 taxpayer and collected Kshs.1 billion from the SMEs in the first year 2008 but is yet to be achieved. In the year ending 2009, turnover tax performed at 31% with a total of Kshs.136 Million against a set target of Kshs.442 million. Additional 3,517 and 4,794 taxpayers were recruited in 2009/10 and 2010/11, respectively, while total revenue for 2010/11 was Kshs.130 million. Studies conducted on taxation have not comprehensively covered the issue of corporate taxpayer compliance in relation to tax reforms introduced.

Kanyi and Kalui, (2014) focused on tax reforms and revenue productivity for the period 1990-2013 using the elasticity and buoyancy models. The study revealed that the Kenyan tax system was in general, not productive despite the several reform measures taken. However, the studies did not include SME's tax compliance. Tax noncompliance not only poses a serious threat to effective tax and voluntary compliance; it also hurts the economy. Lumumba, Migwi, Peterson, and Mageto, (2011) focused on taxpayer attitudes and tax compliance behavior among SMEs in Kerugoya, and the results were that taxpayer attitude does not affect compliance among SMEs. On the same, Muturiet (2012) focused on the online tax system on compliance by SMEs in Meru, and the conclusion was online tax system does not affect agreement. This gap has not been extensively covered by other studies which have been carried out in Kenya. Therefore addressing this information gap is the primary purpose of this study. It is for this reason that the study seeks to investigate the effect of tax reforms on tax compliance by SMEs.

Specific Objectives

To examine the effects of administrative tax reforms on tax compliance by SMEs in Nairobi County.

To determine the effects of policy tax reforms on tax compliance by SMEs in Nairobi County.

To establish the effects of technological tax reforms on tax compliance by SMEs in Nairobi County.

Research Hypothesis

HO1 Administrative tax reforms have a significant influence on tax compliance by SMEs in Nairobi County.

HO2 Policy tax reforms have a significant influence on tax compliance by SMEs in Nairobi County.

HO3 Technological tax reforms have a significant influence on tax compliance by SMEs in Nairobi County.

3. Literature Review

Fiscal Exchange Theory

The theory was developed by Alm in 1995 This concept of the theory is based on the assumption that taxpayers have separate views with respect to looking after their self-interest as opposed to contributing to community interests. In this regard, the more positive a taxpayer's attitude towards paying tax and working with the tax authorities, the greater their willingness to pay tax (Alm & Sanchez, 1995). The fiscal exchange theory suggests that the presence of government expenditures may motivate compliance and that governments can increase compliance by providing goods that citizens demand in a more efficient and accessible manner. Individuals may pay taxes because they value the goods provided by the government, recognizing that their payments are necessary both to help finance the goods and services and to get others to contribute. The existence of positive benefits may increase the probability that taxpayers will comply voluntarily, without direct coercion. Although most taxpayers cannot assess the exact value of what they receive in return for taxes paid, it can be argued that they have general impressions and attitudes concerning their own and others' terms of trade with the government .According to Ritsema, Thomas, and Ferrie (2003), tax compliance decision depends on income level of an individual taxpayer, inspection (audit) by tax authorities and deterrent measures put in place.

Compliance increases with (perceptions of) the availability of public goods and services. Accordingly, the main concern of taxpayers is what they get directly in return for their tax payments in the form of public services (quid pro quo). In this perspective, taxation and the provision of public goods and services are interpreted as a contractual relationship between taxpayers and the government (Alm & Sanchez, 1995).

Portfolio Theory

Portfolio theory was developed by Allingham and Sandmo whereby the approach gives the plausible and productive result that compliance depends upon audit rates and fine rates. Indeed, the central point of this approach is that an individual pays taxes because of this fear of detection and punishment (Allingham & Sandmo, 1972). However, this approach also concludes that an individual pays taxes only because of the economic consequences of detection and punishment. The many extensions of this portfolio approach considerably complicate the theoretical analyses, and generally render clear-cut analytical results impossible. Nevertheless, these extensions retain the basic approach and the basic result: individuals focus exclusively on the financial incentives of the evasion gamble, and individuals pay taxes only because they fear detection and punishment (Allingham & Sandmo, 1972). According to Ajzen and Fishbein (2011) explained human behaviour in a specific context. General attitudes have been assessed with respect to organisations and institutions with regard to particular with whom a person might interact. Although compliance varies significantly across countries (and across taxes) and is often quite low, compliance seldom falls to a level predicted by the standard economic theory of compliance. It seems implausible that government enforcement activities alone can account for these levels of compliance (Allingham & Sandmo, 1972).

Conceptual Framework

The research study was guided by a theoretical structure. The conceptual model that is presented and adopted for this research has been derived from the literature review, the study variables on the framework have been used to develop research questions that were tested during the study.

Independent Variables Dependent variable

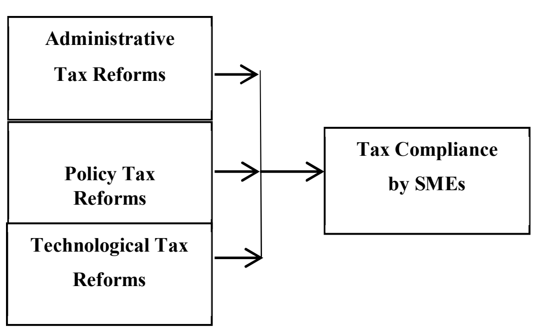

Figure 1: Conceptual framework

4. Research Design

The study employed a descriptive research design. This design was the most appropriate because it ensures that the data obtained give suitable answers to the research questions. A descriptive study was used to describe the characteristics of a population or phenomenon under the study. The data collection was done by asking the representative target population structured and pre-determined questions. This study's research design was cross-sectional and correlational.

Target Population

The target population consists of a group of entities or elements that might be huge than or distinct from the sampled group from which the researcher draws conclusions on the interested population. Cooper and Schindler (2016) define the target population as the total collection of elements that one wishes to generalize the research inference. The study target population was 1450 Managers and Owners of SMEs within Nairobi.

Sample and sampling technique

Specifying the sample frame is crucial as it itemizes all items in the population from which a sample is obtained for analysis to test the research propositions. According to Kothari (2009), a sample size of between 10% and 30% is a good representation of the target population, for populations below ten thousand. In stratified random sampling, the population is categorized into various categories. The study adopted a stratified random sampling technique to select 10% of the target population as the sample size and as recommended by Mugenda and Mugenda (2003). Therefore, the sample size for this study was 145 SMEs, and one person filled the questionnaire from each SME, either the owner/manager or a nominee appointed by them.

Research Instruments

Data gathering includes a procedure that is exact and involves the deliberate social event of data applicable to the exploration sub-issues. The researcher utilized questionnaires as an essential instrument for information gathering. The questionnaire was formatted to contain sections reflecting the study variables. Closed questions were employed in each section for the collection of respondents' views and opinions. The data was collected via a drop and pick a technique to the target population. The use of a self-administered questionnaire is recommended for eliciting self-report on respondents' opinions, attitudes, and values (Kombo & Tromp, 2009). The questionnaires were deemed reasonable because of the high literacy levels among the category of participants selected in the study.

The study adopted content validity to examine the degree to which data was collected with the aid of questionnaires. Before using the questionnaires for generating data for the study, a pilot study was conducted with 10 SMEs in Nairobi, one questionnaire being filled by either the owner/managers or a nominee they appointed. For this examination, the researcher looked for suppositions of specialists in study fielding particular speakers in the division of venture administration to set up the validity of the exploration instrument, and also the study supervisor assisted invalidating the study questionnaires. This encouraged the important amendment and change of the examination instrument in this manner, improving validity.

Reliability refers to the repeatability, stability, or internal consistency of a questionnaire. Cronbach's Alpha was used to test the reliability of the measures in the questionnaire (Cooper & Schindler, 2016). In this study, the data collection instrument, which is a questionnaire, was conducted on 10% of the sample of the questionnaires to ensure that it was relevant and effective. Reliability was tested using questionnaire duly completed by ten randomly selected respondents. These respondents were not included in the final study sample to control response biasness. The use of different measures for the same concept or the same measurements repeated over time should yield the same results if the test is reliable. The questionnaire responses were input into SPSS Version 24 and Cronbach's Alpha coefficient generated to assess reliability. The closer Cronbach's Alpha coefficient is to 1, the higher the internal consistency reliability (Sekaran, 2010). A coefficient of 0.7 is recommended for a newly developed questionnaire. Reliability is the degree to which a question is consistently measured (Sekaran, 2010). Cronbach's Alpha is a popular method for estimating the reliability of an instrument, but it is highly inappropriate for the survey questionnaires. The study used a co-efficient of 0.7 and above for all constructs that was considered adequate for the study.

The construct multiple of reliability is Cronbach Alpha, according to Kombo and Tromp (2009), the standard acceptable reliability coefficient is 0.7 the study adopted. Cronbach Alpha was used to test research instrument reliability. According to Mugenda and Mugenda (2003), a reliability test of research instruments is one that consistently produces the expected results. According to Kothari (2009), a questionnaire has the same expectation; that is, it reliably does what it is designed to do every time it is used. If the questionnaire is consistent over time and yields similar results each time it is used, it is reliable. They say that because of the economy in time and labour, the procedure for extracting an estimate of reliability should be obtained from the administration of a single test. The researcher used the questionnaire and administered the questionnaire to 10 respondents from the target population randomly.

The reliability test was carried out in evaluating the study questionnaires, and this was important to examine the degree to which individual study variables used are consistent with their measures. The widely used Cronbach's coefficient alpha was employed to assess internal consistency. Zikmund (2011) posits that a Cronbach Alpha of 0.6 is the acceptable minimum. As recommended by Saunders, Thornhill, & Lewis (2016), the reliability results exceeded a coefficient of 0.7, revealing a very high degree of reliability. All the alpha coefficients ranged between 0.7 and 0.9, as shown in Table 1. Based on the coefficient values, the items tested were deemed reliable for this study.

Table 1: Reliability coefficient of the study variables

Variable	Number of Items	Cronbach's Alpha Coefficient (α)	Comments
Administrative tax reforms	8	0.875	Accepted
Policy tax reforms	8	0.885	Accepted
Technological tax reforms	8	0.722	Accepted

Table 1; shows that administrative tax reforms had a Cronbach's Alpha Coefficient (α) of 0.875, and policy tax reforms had Cronbach's Alpha Coefficient (α) of 0.885 and technological tax reforms scored 0.722. Since the reliability results exceed 0.7 lower level of acceptability, internal consistency reliability measures used were considered high and adequately measuring the study variables hence considered reliable for analysis and generalization on the population. Validity was tested by carrying out a pilot study. The instrument was then modified in the form of structure and resulted incorporated in the final instrument. In addition, the questionnaire was tested by discussions with the supervisor during the questionnaire formulation stage to ensure that the measure included an adequate representative set of items that tapped the content. Construct validity was also ensured by anchoring the constructs to the theory and empirical review of data from which they were derived.

5. Data Collection Procedure

According to Kombo and Tromp (2009), data collection is important in research because it allows for the dissemination of accurate information and the development of meaningful programs. The researcher informed the respondents that the instruments being administered were for research purposes only, and the response from the respondents remained confidential. The researcher obtained an introduction letter from the National Commission for Science, Technology, and Innovation (NACOSTI) in order to collect data from the field and then personally delivered the questionnaires to the respondents. The researcher then collected the questionnaires later with the help of the two research assistants. The respondents were guided through the inquiries and outlined contrasting options to guarantee a proper reaction. Drop-and-pick later strategy for information accumulation was conducted to improve the reaction rate. The data was then transformed into one form of qualitative data taking up numerical and quantitative forms for ease of analysis.

6. Data Analysis and Presentation

According to Zikmund (2011), data analysis refers to the application of reasoning to understand the data that has been gathered with the aim of determining consistent patterns and summarising the relevant details revealed in the investigation. This involves coding, editing, data entry, and monitoring the whole data processing procedure. To determine the patterns revealed in the data collected regarding the selected variables, data analysis was guided by the aims and objectives of the research and the measurement of the data collected. The data and information obtained through the questionnaire were first checked for completeness. Data gathered from correctly filled questionnaires was coded, tabulated, and analyzed using SPSS Version 24 by both descriptive statistics, which include mean and standard deviation, to capture the characteristics of the variables under study. Additionally, to test the significance of tax reforms on tax compliance by SMEs, the study conducted inferential statistics. Since most tax reforms are constructed, factor analysis was used to reduce the constructs into factors that were used in the regression model. The data was presented using graphs and tables. The analysis of variance (ANOVA) was checked to reveal the overall model significance. A critical p-value of 0.05 was used to determine whether the overall model was significant or not. A multiple linear regression model was used to test the significance of the influence of the independent variables on the dependent variable. To estimate a model of the composite index of tax compliance by SMEs measure, y a regression constant or intercept, β_1 to β_3 is the regression coefficient. The multiple linear regression models were as laid below.

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

Where: Y= the value of dependent variable. Tax compliance by SMEs

$\{\beta_i;\ i = 1, 2, 3\}$ = coefficients representing the various independent variables.

$\{X_i;\ i = 1, 2, 3\}$ = are values of the various independent variables.

e is the error term.

Y = Tax compliance by SMEs;

X_1= Administrative tax reforms;

X_2= Policy tax reforms and

X_3= Technological tax reforms

Ethical consideration

The researcher obtained a permit from the university to collect data from the field. A permit from the State agency is an external and independent proof that the study was not immoral or illegal. Through the whole study period, this research was guided by the following ethical guidelines: informed consent, voluntary participation, confidentiality, privacy, and anonymity.

7. Findings, Conclusion, and Recommendations

The study gave out a total of 145 questionnaires to the sample population, and the valid sample that was used for the study is 135. (n=135). The responses from the field data show that most respondents who participated in the research study were female. The majority indicated their age was between 31 and 40, followed by respondents aged between 26 and 30. The respondents indicated their level of education, and the majority had attained a diploma level of education.

Relationship between Administrative tax reforms and Tax compliance by SMEs

Regression analysis was run to empirically determine if administrative tax reforms was a significant determinant of tax compliance by SMEs. The results in Table 2 shows that there is a strong positive correlation (R=0.509) between administrative tax reforms and tax compliance by SMEs. This result indicates satisfactory goodness of fit for regression between administrative tax reforms and tax compliance by SMEs. The R squared of 0.259 indicates that 25.9% of decisions in tax compliance by SMEs are explained by administrative tax reforms. The unexplained 74.1% could be accounted for by other factors, including policy tax reforms and technological tax reforms.

Table 2: Model Summary for Administrative Tax Reforms

Model	R	R Square	Adjusted R Square	Std. Error
1	0.509 (a)	0.259	0.250	0.66676

The overall model significance was presented in Table 3. The f statistics of 27.328 and sig. 0.000 indicates that the overall model was significant. This implies that administrative tax reforms are significant in shaping the decisions for the tax compliance SMEs in Nairobi.

Table 3: ANOVA for Administrative Tax Reforms

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.149	1	12.149	27.328	0.000(b)
	Residual	34.676	78	0.445		
	Total	46.825	79			

In Table 3, the results of coefficients represented (p=0.000) show that administrative tax reforms contribute significantly to the tax compliance by SMEs since the p-value for the constant and gradient are less than 0.05. Thus, any positive unit change in administrative tax reforms is poised to influence tax compliance by SMEs' decisions at a rate of 0.509.

Table 4: Regression Coefficients Results of Administrative Tax Reforms

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	Constant	1.350	0.446		3.026	0.003	0.462	2.238
	Administrative tax reforms	0.586	0.112	0.509	5.228	0.000	0.363	0.809

The regression model $Y=B_0+B_1X_1$ explaining the results in Table 4 are given by:

$$Y= 1.350+0.586X_1$$

Relationship between Policy Tax Reforms and Tax Compliance by SMEs

A regression analysis was conducted to empirically determine if policy tax reforms was a significant determinant of tax compliance by SMEs in Nairobi. Results in Table 5 indicate R of 0.545, which denotes a strong positive correlation between policy tax reforms and tax compliance by SMEs in Nairobi. Therefore the goodness of fit for regression between policy tax reforms and tax compliance by SMEs was satisfactory. The value of variance R squared of 0.297 shows that 29.7% of decisions in tax compliance by SMEs are explained by policy tax reforms. The unexplained 70.3% could be accounted for by other factors including but not limited to administrative tax reforms and other factors such as technological tax reforms.

Table 5: Model Summary for Policy Tax Reforms

Model	R	R Square	Adjusted R Square	Std. Error
1	0.545 (a)	0.297	0.288	0.64942

The overall model significance was presented in Table 6. The f statistics of 33.027 and sig. 0.000 indicates that the overall model was significant and implies that policy tax reforms are significant in decisions for the tax compliance by SMEs in Nairobi.

Table 6: ANOVA for Policy Tax Reforms

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	13.929	1	13.929	33.027	0.000(b)
	Residual	32.896	78	0.422		
	Total	46.825	79			

The results of coefficients represented in Table 7 (p=0.000) show that policy tax reforms significantly determine the tax compliance by SMEs since the p-value for the constant and gradient are less than 0.05. This implies that types of policy tax reforms of SMEs influence tax compliance by SMEs' decisions at the rate of 0.545.

Table 7: Regression Coefficients Results of Policy Tax Reforms

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	Constant	1.142	0.442		2.582	0.012	0.261	2.023

Policy tax reforms	0.685	0.119	0.545	5.747	0.000	0.448	0.922

The regression model $Y=B_0+B_2X_2$ explaining the result in Table 7 is given by:

$Y= 1.142+0.685X_2$

Relationship between Technological Tax Reforms and Tax Compliance

A regression analysis conducted to empirically determine if technological tax reforms is a significant determinant of tax compliance by SMEs in Nairobi was done. Results in Table 8 show R at 0.577, which is a strong positive correlation between technological tax reforms and tax compliance by SMEs in Nairobi. This implies a satisfactory regression fit between technological tax reforms and tax compliance. The R squared of 0.333 denotes 33.3% of decisions in tax compliance are explained by technological tax reforms. The unexplained 66.7% could be accounted for by other factors, including administrative tax reforms and policy tax reforms, among others.

Table 8: Model Summary for Technological Tax Reforms

Model	R	R Square	Adjusted R Square	Std. Error
1	0.577 (a)	0.333	0.324	0.63297

The overall model significance presented in Table 9 indicates the f statistics of 38.871 and sig. of 0.000. This shows that the overall model was significant, and technological tax reforms are significant in the tax compliance by SMEs in Nairobi.

Table 9: ANOVA for Technological Tax Reforms

Model		Sum of Squares	df	Mean Square	f	Sig.
1	Regression	15.574	1	15.574	38.871	0.000(b)
	Residual	31.251	78	0.401		
	Total	46.825	79			

The results of coefficients (p=0.000) represented in Table 10 show that technological tax reforms significantly influence the tax compliance since the p-value for the constant and gradient are less than 0.05. Thus, the amount of technical tax reforms has relative to its influences tax compliance decisions at the rate of 0.577.

Table 10: Regression Coefficients Results of Technological Tax Reforms

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	Constant	1.152	0.407		2.831	0.006	0.342	1.962
	Technological tax reforms	0.687	0.110	0.577	6.235	0.000	0.468	0.907

The regression model $Y=B_0+B_3X_3$ explaining the results in Table 10 are given by:

$Y= 1.152+0.687X_3$

Multivariate Regression

A multiple regression analysis was carried out to investigate the joint causal relationship between tax reforms and tax compliance by SMEs. The predictors were administrative tax reforms, policy tax reforms, and technological tax reforms. Regression results indicated satisfactory goodness of fit for the regression of the combined tax reforms (administrative tax reforms, policy tax reforms, and technological tax reforms) and tax compliance by SMEs in Nairobi. The R was 0.750, which implies strong positive correlations between the tax reforms and tax compliance by SMEs in Nairobi. An R squared of 0.563 indicates that 56.3% of tax compliance by SMEs is explained by the tax reforms. Only 43.7% is dependent on other determinants.

8. Conclusion

The study has linked administrative tax reforms, policy tax reforms, and technological tax reforms and tax compliance. KRA has been taking a keen interest to understand the affairs of its taxpayers to determine their tax status and, therefore, potential tax liabilities. Over the years, KRA has encouraged the process of voluntary disclosure by taxpayers. The tax reform strategies assist taxpayers to accurately file their returns hence boosting the revenue collection. Statistically, tax reforms explain up to 94.5% of tax compliance by SMEs, which then shows that the tax reforms are very important for enhancing tax compliance. From the analysis, there is an inverse relationship between tax reforms and tax compliance, therefore, indicating that the more the tax reforms are increased, the less value in SMEs compliance. This actually shows that the implementation of tax reforms has not generated much success as intended. SME's tax behaviors negatively affect the tax compliance of the SMEs. The study concludes that the tax reforms targeting SMEs should be based on the ability to elicit voluntary compliance from the SMEs in Nairobi.

9. Recommendations

KRA should do more in implementing reforms, and for instance, publicize of prosecution of non-tax compliant, provide an incentive for compliance given, provide an opportunity for voluntary compliance. More audits and checks should be carried out. It is clear from the study that when SMEs taxpayers do not comply. This study recommends that more resources be put on tax reforms to bring more SMEs who are non-compliant into the tax bracket. There should be a continued emphasis on tax among the SMEs by the KRA.SMEs business should embrace online filing and payments. The tax reforms should enhance voluntary compliance from the SMEs but not only concentrate on penalties and fines on non-compliant SMEs. Reforms should create an environment in which compliance is promoted among the SMEs. KRA should work together with the public and other stakeholders like professionals like Institute of Certified Public Accountants of Kenya, among others, in encouraging good accounting practices.

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