

# Impact of Taxpayer Education On VAT Compliance Among Hotels in Kisumu County

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## Abstract

The study aimed at assessing the impact of taxpayer education on VAT compliance among Hotels in Kisumu County. Specifically, the study sought to determine the effect of print media taxpayer education, electronic taxpayer education and taxpayer sensitization programs on VAT compliance. This study was guided by three theories namely: The Fiscal Psychology Theory, the Economic Deterrence Theory and the Ability to Pay Theory. The study adopted a descriptive research design. A total of 250 hotels operating in Kisumu County were targeted. Stratified random sampling was used to select 153 hotels. The study gathered primary data with the help of questionnaires. Data collected was analyzed using Statistical Package for Social Sciences (SPSS) and the study findings presented in the form of tables and figures. The findings would reveal whether taxpayer awareness, taxpayer perception, attitude, and imposition of fines and penalties have a significant effect on VAT compliance. Based on correlation beta coefficients, the study established that taxpayer sensitization programs ( $\beta=0.455$ ) had largest effect on VAT compliance followed by electronic taxpayer education ( $\beta=0.124$ ) and lastly print media taxpayer education ( $\beta=0.102$ ). The study concluded that taxpayer education had significant effect on VAT compliance. The study recommends that the Kenya Revenue Authority should invest more in tax sensitization programs like forums, seminars and this may be misplaced given that the focus of this study is taxpayer education, furthermore this suggestion requires legal authorization for KRA to implement with least emphasis on print media channels. The policy makers at Kenya Revenue Authority in designing taxpayer education programs should focus more on enhancing the existing taxpayer sensitization programs and e-taxpayer's education channels since this would greatly enhance VAT compliance.

*Keywords: Taxpayer Education*

## 1. Introduction

Value added tax (VAT) is viewed as consumption form of tax that can be analyzed on the side of the buyers and sellers. In view of the buyers, VAT is seen as a form of tax that is imposed on the purchases made. For sellers, the VAT is viewed as a tax that is charged on value addition across the various stages. The difference in these accounts is remitted to the government by manufacturing entities as VAT (VAT Act 2013). The driving force for VAT is to ensure there are adequate revenues to fund the operations of the government.

VAT became the most important source of revenue for government budgets (Bikas & Rashkauskas, 2011). Keen & Lockwood (2006) and Keen (2007) find a positive relationship between VAT revenues and total tax revenues. Countries introducing VAT experience increases in their tax ratios, that is to say, tax revenues as a fraction of Gross Domestic Product (GDP) (Keen & Lockwood, 2006; Nellor, 1987). Furthermore, the tax ratio does not decrease later on, but instead, it persists at higher level (Nellor, 1987). Azaria & Robinson (2005) and Keen & Lockwood (2010) found that the presence of VAT has a positive and significant impact on total tax revenues.

### 1.1.1 Global Perspective on Taxpayer Education

Taxpayer education on VAT in many European countries has become the main strategy of driving voluntary tax compliance and thus increasing the tax revenues collected. As many as 120 countries throughout the world have resorted to implementation of relevant tax education programs like the use of print media and electronic devices like televisions to create awareness and improve the level of knowledge of the taxpayers as far as their tax obligations are concerned (Legeida, 2003). In China, the tax payer sensitization programs play an important role as far as the growth of the overall tax revenue and the economy is concerned. A number of tax education reforms have been put in place in China aimed at increasing compliance with VAT so as to spur the growth of the economy. These reforms include the adoption of state of the art technologies in creating more awareness on taxpayers concerning the need to comply with tax provisions and laws (Xiong, 2013).

### 1.1.2 Regional Perspective on Taxpayer Education

In Nigeria, Olowookere and Fasina (2013) shared that it is important to provide taxpayer education to students undertaking non accounting related course and the same should not just be restricted to students undertaking accounting courses at all the levels. Taxpayer education is praised as one of the strategies aimed at reducing tax complexity and compliance costs which would then drive voluntary tax compliance among the taxpayers (Olowookere & Fasina, 2013). In South Africa, tax payer sensitization programs in place led to an increase in the number of registered VAT vendors increased significantly over previous

years from 578 138 in 2004/05 to a high of 745 487 in 2007/08. In 2012/13 there were 650,540 registered VAT vendors, of which 425,576 (65.4%) were active. However, due more stringent registration requirements and improved risk-based vetting of refunds, the number of vendors registered for VAT continues to decline (SARS, 2014).

For similar reasons, cited by both researchers and practitioners, the idea of VAT witnessed a rapid spread across sub-Saharan Africa beginning in the late 1960s. Ghana, for instance, adopted VAT to broaden its revenue base (Ali-Nakyea, 2014). It is believed that VAT has been a consistent tax feature of many tax systems in both developed and developing worlds for its remunerative nature (Gebauer et al., 2007). Given the positive attributes associated with VAT, it is important to invest in relevant tax education programs to increase the knowledge and awareness of the taxpayers thus driving the level of their compliance with tax obligations.

VAT in Ethiopia is young. It came into realization in 2003 (VAT in Ethiopia, 2012) and plays an important role in the economy in terms of its contribution to ever-increasing domestic revenue and reducing budget deficit. Hence, domestic financing of development projects, its implementation at national and regional level is not free from multidirectional bottlenecks both from the side of implementers and business community (Bird & Gendron, 2005). To solve these bottlenecks and increase revenue potential from this tax head, tax payer education programs are paramount.

Tanzania like many other countries has introduced Value Added Tax (VAT), which has advantages over sales taxes as the way to discourage tax evasion and allowing domestic producers to compete with foreign counterparts on an even playing field. It has also been observed that the introduction of VAT is the most pervasive feature of tax reforms (Shekidele & Mugoya, 1996). In Tanzania, compliance with VAT payment has been posing a greater challenge to the government due to limited level of knowledge among the taxpayers and which can in turn be addressed through relevant taxpayer education programs. For example, the proportion of VAT revenue to the total tax revenue decreased from 43% in 2011/2012 to 41% in 2012/2013 ([www.tra.go.tz](http://www.tra.go.tz), tax statistics, 2014). This fact suggests that there is a problem of compliance with VAT payment that affects government revenue collections as well as it has been increasing administrative cost of taxation and law enforcement and justifies the need to invest heavily in taxpayer education programs.

### 1.1.2 Kenyan Perspective on Taxpayer Education

The KRA has made significant progress as far as taxpayer education is concerned (Moyi & Ronge, 2006). These measures include introduction of tax seminars and workshops, putting in place centers where customers can access and gain

meaningful information as well as adoption of electronic and print media to instill knowledge concerning taxes to the taxpayers. Mobile tax clinics are organized as well as road shows aimed at enhancing the level of knowledge and changing the attitudes of the taxpayers towards general compliance. Despite this heavy commitment in taxpayer education, the Kenya Revenue Authorities have been missing the targeted VAT collection, several eligible persons for VAT registration remain unregistered and the huge protest by traders opposed to the introduction Electronic Tax Register (ETR), which was meant to enhance VAT compliance, shows that VAT compliance is still low in Kenya. To correct this, Kenya Revenue Authority has embarked on tax payers' education to increase general tax compliance in the country.

Value Added Tax compliance requires some level of literacy in order for a registered trader to adequately keep the required records and understand the complex legal structure. The VAT Act contains a great deal of tax related laws, decrees, rulings and exemptions and these make the VAT laws to be complex and incompressible to an ordinary taxpayer. Thus, the tax payer need proper and accurate records such as invoices can be challenging since most businesses in Kenya are informal and operate on cash basis and at times do not issue invoices. It is for these reasons that the Domestic Taxes Department has found it necessary to educate taxpayers to enhance compliance with the Value Added Tax requirements. Appendix III gives the breakdown of the VAT collection in Kenya.

Hotels in Kisumu County do focus on Food, accommodation and bar services. Taxpayer Education will provide necessary tax knowledge to the Hotel operators that would enable them to comply with the tax matter and change the perceptions and attitudes towards tax compliance by creating attitudes that are more positive. Tax education component is expected to deal with non-compliance practice among the Hotels in Kisumu County. This study was conducted within Kisumu County. Therefore, continuous education programs and effective monitoring mechanisms must be taken into account by tax authorities to ascertain that taxpayers have a good and reasonable knowledge and understanding of tax matters. However, the awareness and attitude of the taxpayer himself is more important since the effectiveness of tax education depends on the readiness, acceptance and honesty of taxpayers.

### **1.2 Statement of the Research Problem**

VAT compliance is a major problem for many tax authorities and it is not an easy task to persuade taxpayers to comply with tax requirement even though 'tax laws are not always precise' (James & Alley, 2004). (Aksnes, 2011) discussed some reasons why taxpayers may be non-compliant and these include low education. Kenya is among the East African Countries characterized by low level of VAT compliance particularly among businesses of relatively

smaller sizes. The low level of VAT compliance has been evident in inability of KRA to meet tax revenue collection targets. For instance, the amount of VAT collected against Targets for different financial years are as follows; In the year 2016/2017, collection was Kshs. 169,718,511,441 against a target of Kshs. 202,341,139,884 performing at 83.9%. In the year 2017/2018, collection was Kshs. 233,283,037,962 against a target of Kshs. 261,597,031,910 performing at 89%. In the year 2018/2019, collection was Kshs. 134,437,775,633 against a target of Kshs. 158,088,932,309 performing at 85%. In the year 2019/2020, collection was Kshs. 151,815,453,398 against a target of Kshs. 210,148,896,183 performing at 72%. This is relatively low and minimal increase in values, (KRA, 2020).

Various studies have been conducted to determine the interaction between taxpayer education and tax compliance in different contexts. For example, (Gituru, 2017) focused on SMEs operating in Nairobi to determine the link between taxpayer education and tax compliance. It was shown that electronic taxpayer education; print media taxpayer education, and stakeholder engagement, influences tax compliance among SMEs in Nairobi's CBD area. (Pere & Theuri, 2019) analyzed the link between communication channels and tax compliance with key emphasis on SMEs in Nairobi. It was noted that investing in Electronic communication channel is very expensive to implement and sustain but government must make effort since this is one of the factors that increases compliance among small taxpayers in Nairobi County.

Therefore, from the above mentioned studies, it is clear that some of them focused on tax compliance as a whole and not specifically on VAT compliance creating a conceptual gap. Other scholars have studied VAT compliance in various sectors but no study has been conducted focusing on the hospitality sector thus creating a conceptual gap. Others were done in different counties like Nairobi and others were done in other countries away from Kenya hence a contextual gap. To fill these gaps, the current study sought to determine the effect of taxpayer education on VAT compliance among hotels in Kisumu County.

### **1.3 Objectives of the study**

The study had one general and three specific objectives as outlined below:

#### **1.3.1 General objective**

The general objective of this study was to establish the effect of taxpayer education on VAT compliance among hotels in Kisumu County, Kenya

#### **1.3.2 Specific Objectives**

The study was guided by the following specific objectives:

- i. To determine the effect of print media taxpayer education on VAT compliance among hotels in Kisumu County

- ii. To assess the effect of electronic taxpayer education on VAT compliance among hotels in Kisumu County
- iii. To determine the effect of taxpayer sensitization programs on VAT compliance among Hotels in Kisumu County

#### 1.4 Research Questions

In order to address the objective of the study, the researcher sought to answer the following research questions:

- i. What is the effect of print media taxpayer education on VAT compliance among hotels in Kisumu County?
- ii. What is the effect of electronic taxpayer education on VAT compliance among hotels in Kisumu County?
- iii. What is the effect of taxpayer sensitization program on VAT compliance among Hotels in Kisumu County?

#### 1.5 Justification of the Study

The results of the study may be important to the following:

##### 1.5.1 The Management Team of Hotels in Kisumu

In counties such as Kisumu County, Hotels are seen as desirable in developing economies, particularly in terms of employment and aggregate output. Although the actual VAT revenue from Hotels in Kisumu County falls significantly short of estimated potential VAT revenue, there is little empirical evidence as to why this is so. If more SME taxpayers like the Hotels were included in the tax system, it may well have positive results for tax administration by raising tax revenue through declining tax evasion or avoidance.

##### 1.5.2 The Government of Kenya

The government of Kenya may use information obtained from this study as a basis for policy formulation of tax education for businesses in hotels and also to formulate strategies to promote an enabling environment for their VAT compliances. The study may also assist KRA on the options for improvement and modes of delivery of its taxpayer education programs in future. This may ensure that the authority is able to achieve its set revenue collection target over the respective financial years.

##### 1.5.3 Scholars and Researchers

The research may be of interest to scholars and researchers who may require developing or advancing their knowledge in the field of tax compliance and administration, and may also find the report valuable in understanding one of the growing sectors of the economy.

##### 1.5.4 The general public

This research may be useful to the general public by adding to the existing body of knowledge on taxpayer education as well as VAT compliance among hotels in Kisumu County.

#### 1.6 Scope of the Study

The inquiry looked at education of the taxpayers and the link with VAT compliance. The specific focus of the study was on print media taxpayer education, electronic taxpayer education and sensitization programs of the taxpayers with regard to compliance with VAT. The study covered hotels operating in Kisumu County. The study used a case of Kisumu County because of its central location and being one of the cities in Kenya. These conditions have provided an ample environment for establishment of many hotels in Kisumu County that the current study shall focus on. The study was conducted in the month of March 2021 and it covered the financial year 2018/2019 as informed by availability of data within this period.

## 2. LITERATURE REVIEW

### 2.1 Introduction

This chapter presents a review of the literature related to the subject of the study as presented by various researchers, scholars, analysts and authors outlining arguments for and against in relation to the study.

### 2.2 Theoretical Framework

A theoretical framework covers the key theories that provide anchorage to the study.

#### 2.2.1 Fiscal Psychology Theory

It was (Schmölders, 1959) and it inductively examine the attitudes and beliefs of taxpayers in order to predict actual behavior. The basis of this reasoning is proposed by (Ajzen & Fishbein, 1980) who state that attitudes are unbiased indicators of real behavior. This theory argues that the perceptions of the taxpayers play a critical role in shaping the ability of the taxpayers to comply with taxes (Hasseldine, 1991). According to (Turner, 2005), the trust that people have in the government shapes their ability to comply with taxes on a voluntary basis. (Frey, 2002) provides a description of the link existing between the tax agencies and the taxpayers. (Rousseau, 1993) reinforces the need for the government to establish sound policies that create an interaction with the taxpayers.

The fiscal and social psychology theory will be used in this theory to explain VAT compliance being the dependent variable in this study. This theory will also be used to explain print media as a form of taxpayer education. In accordance to this theory, taxpayers will be keen on obtaining information from print media about tax matters if they are convinced that the government is putting the tax collected into the best use possible.

#### 2.2.2. The Economic Deterrence Theory

This theory can be followed back to the early works of classical philosophers such as Thomas Hobbes (1588–1678), Cesare Beccaria (1738–1794) and Jeremy Bentham (1748–1832). Together, these scientists questioned the legitimate methods that governed the European concept for more than a thousand years and against the spiritualistic clarifications of the wrongdoing they were founded on. These implicit

scientists also gave the reason for the modern criminology avoidance hypothesis.

This theory was also developed under criminology (Becker, 1968). Discouragement advocates recognize that in the aftermath of computing the additions and outcomes of their operations, people obey or ignore the law. This theory is based on the observation that if the benefit of wrongdoing is surpassed by the result of perpetrating the wrongdoing, an individual will be prevented from performing a wrongdoing. The theory is prefaced in the belief that the outcomes of criminal behavior are known to all individuals.

There are two main types of discouragement; general and explicit. In the all-encompassing society, general discouragement is designed to anticipate wrongdoing. In this way, the state's guilty party discipline fills in, for example, for others in the general public who have not yet participated in criminal offences. It is designed to make them aware of the authority's repulsions in order to hold them off performing wrongdoings. Models include the use of death penalty and the use of whipping. The concept of the approved authorizations to hinder only the individual wrongdoer from carrying out that wrongdoing later structures the explicit discouragement.

Additionally, advocates of explicit discouragement recognize that serious rebuffing of guilty parties will make them unwilling to subsequently reoffend. For example, an alcoholic driver would be deterred from drinking and driving due to the upsetting backdrop of being caught or having their license withdrawn or their car appropriated. The state must use sufficient agony to counterbalance the measure of happiness obtained from drinking.

Citizens will act against the law after evaluating the questionable favorable conditions of an efficient avoidance against the risk of being caught and punished. Judicious citizens will avoid charges if the normal benefits are more remarkable than the cost of obtaining them. It is possible to achieve discouragement through corrective and strong methods (Kendrick, 1939). The corrective methodology will prevent a citizen from submitting exercises associated with tax avoidance by convincing inconvenience of harder penalties and reducing the probability of non-identification.

Criminal deterrence theory experts attack the theory for a few reasons. First of all, they argue that this model does not represent reality and thus presents a contorted picture of the object of discouragement. Dependence on the sane entertainer model of criminal behavior has been condemned for its significant reason that people are, in Veblen's expression, "helping to add machines of agonies and joys." The assumption that people in each case gauge the results of their criminal behavior carefully beforehand can be effectively discredited by the perception that some violations are spontaneous acts.

The economic deterrence theory will be used in this study to explain electronic forms of taxpayer education. Taxpayer

obtains information from electronic media in order to understand what is expected of them and the consequences of non-adherence. Electronic media such as television and radio announcements, KRA online tutorials on i-tax and Internet news will arm taxpayers with necessary information to make informed decisions.

### 2.2.3 Ability to Pay Theory

This theory was originally advanced by Jean Jacques Rousseau between the years 1712 to 1778. Similarly, Jean-Baptiste Say also looked at the theory between the year 1767 and 1832 and lastly John Stuart Mill advanced the theory between the year 1806 and 1873. The advancement took place in the seventeenth century. This theory argues that responsibilities should be estimated on the basis of an individual's wage or capacity to pay, which is consistent with dynamic assessment where the rate of increases in expenses increases with increases in the assessable wage. Individuals with more prominent pay or wealth should be burdened at a greater rate as they can bear payment, whereas those with less pay should be subjected to a lower level of evaluation.

In view of the reality that the complete VAT payable on a particular property or administration is the equivalent paying little attention to the person's pay, Tank does not converge with this hypothesis. VAT could therefore be regarded backward as it means a decreased division of the wage of an individual as their pay increments (Jones & Rhodes, 2011)

(Kendrick, 1939) further says that, the usual and indeed the only serious justification of ability to pay is on grounds of sacrifice. The payment of tax is viewed as a deprivation to the taxpayer. He might have spent the money for his own purposes but instead must turn it over to the public treasury from which it will be expended for social ends. In surrendering his money to the government, he is said to make a sacrifice. The idea of sacrifice when linked to the concept of the declining marginal utility of money has given rise to three theories of progressive taxation: the equal, equal-proportional, and least-sacrifice theories.

The theory of equal-sacrifice suggests that, taxes should be paid in such a manner that the sacrifices of all taxpayers are equal. The concept of equal sacrifice means to impose an equal amount of sacrifice on all taxpayers, (Brown, 1929). The theory of equal-proportional sacrifice holds that the sacrifice of taxpayers should bear an equal proportion to their incomes. Thus in this view equality of sacrifice is not sufficient. The rich man's tax payment should represent a greater sacrifice than the contribution of a man of moderate means. It should; however, be greater in relation to his income. The equality is, therefore, to be found in the proportion, not in the quantity of sacrifice (Pigou, 1928).

The theories of equal and of equal-proportional sacrifice both involve the taxation of poor as well as rich persons (Seligan, 1928). In neither theory is there an attempt to make any income group bear all the taxes. According to the theory

of least sacrifice, taxes should be laid first on the incomes of the very rich (Pigou, 1928). When these incomes are reduced to the level of the rich, then the rich would be taxed. Persons of moderate means would be taxed only after the incomes of the very rich and the rich have been reduced by taxation to their level. The theory calls for the progressive elimination of the high incomes by taxation.

The ability to pay theory will be employed in this study to explain taxpayer sensitization programs and seminars as a means of taxpayer education. Taxpayers will be motivated to attend these forums if they are convinced that the tax chargeable on their income dependent on their ability to pay. Adherence to this ensures that taxpayers comfortably pay their taxes and thus are better motivated to be compliant.

### **2.3 Conceptual Framework**

**See annex Figure 2.1 The conceptual framework of the inquiry**

#### **2.3.1 Print Media Taxpayer Education**

There are different avenues of print media that can be used to change and modify the perceptions of the taxpayers as far as compliance with VAT is concerned. These include the use of newspapers and magazines that create more awareness on the need to file and pay VAT on time. KRA do generate some pamphlets, booklets and reports including the corporate strategic plans that have relevant information on taxation.

#### **2.3.2 Electronic Tax Payer Education**

According to (Sas, 2007), a holistic view of taxpayers through use of electronic means would facilitate compliance by use of dynamic comprehensive approaches. Study supports that this approach would enable an organization gain a single view of the taxpayer; increase auditor efficiency; enhance policy analysis ability and improve performance management. (Lai et al, 2010) found out that knowledge of ICT and electronic tax systems among students had positive impact on compliance. Such electronic media broadcast or storage media that take advantage of electronic technology may include television, radio, internet, fax, CD-ROMs, DVD and any other media that requires electricity or digital encoding of information.

#### **2.3.3 Taxpayer Sensitization Programs**

Kenya Revenue Authority (KRA) holds workshops and seminars to sensitize taxpayers on tax compliance. In 2018, the KRA launched the annual Taxpayer's Month. During this period, taxpayers are engaged in a number of activities for instance the taxpayer appreciation visits, taxpayer education, a tax summit and Corporate Social Responsibility (CSR) activities. These activities are aimed to act as a platform to encourage citizens to pay taxes for the country's economic development. Tax Summits are also organized with key industry experts representing EABL, Oracle, National Bank of Kenya (NBK), among others as panelists at these sessions. Relevant knowledge concerning tax is shared during these tax seminars to the taxpayers. In fact, some of these seminars and

workshops are organized in the biggest hotels in Kenya which allow effective participation of the hospitality industry.

### **2.3.4 VAT Compliance**

Compliance refers to fulfilling all tax obligations as required by the tax laws (Williams & Round, 2009). Persons fail to comply with tax laws either willingly or unwillingly. They include tax resisters and tax protesters. Tax protesters attempt to evade the payment of taxes using alternative interpretations of the tax law, while tax resisters refuse to pay a tax for conscientious reasons. In this study, VAT compliance is used to refer to the ability of the taxpayers to be registered, file and pay their VAT due on time. Payment of these VAT dues is supported by correct declaration of the VAT due on the filed returns.

### **2.4 Empirical Literature Review**

This section will focus on the review of relevant empirical literature on the variables of the study.

#### **2.4.1 Print Media Taxpayer Education and VAT Compliance**

(Djawadi & Fahr, 2013) did a study in Germany. It was noted that the use of print media to share relevant information on taxation is a key factor changing the perceptions and attitudes of the taxpayers thus driving their compliance behavior. (Merima et al, 2013) covered African countries to bring out the key issues that impact on compliance behavior as far as tax affairs are concerned. The study raised the need for generation of fliers to create more knowledge on taxpayers so that they become compliant. Another inquiry in Nigeria by (Atawodi & Ojeka, 2012) shared that noncompliance behavior is shaped higher rates of taxation, challenges when it comes to techniques of filling and poor methods of gathering taxes. Ideally, these are issues that can best be handled through institution of tax education programs.

(Thiga & Muturi, 2015) covered the smaller firms operating in Kiambu to bring out their ability to comply with taxes. It was shown that the level of compliance among these entities was very low largely because of the associated costs incurred by the taxpayers as they strived to abide by the provisions of taxation. (Trivedi & Shehata, 2005) shared that some economic and psychological issues are linked with some behavior of the taxpayers. Modification and change of the behavior of the taxpayers call for institutionalization of sound taxpayer training systems.

(Achieng', 2014) studied the effect of print media reporting of taxation issues in Kenya. The study sought to find out how taxation is reported in the print media in Kenya a case of the Daily Nation and the Standard newspapers. The period taken was June to December 2013; during the budget reading, post budget review and after the 1st revenue quarter. A content analysis of the daily newspapers (Monday to Friday) publications specifically Nation and Standard was done. The population of this study comprised 360 publications

within the six months' period. Analysis of the findings was done with the help of a code sheet. From the findings, the study concludes that taxation reporting in the print media is sensational and seasonal. Media houses are primarily profit making organizations. They focus their reporting to news that will sell and hence report taxation prominently when it touches on top government officials. The study recommends that the media as an informational tool should give taxation prominence in their reporting and must play a watchdog role in highlighting government projects that are implemented using the government tax.

(Pere & Theuri, 2019) did a study on communication channels and tax compliance in Kenya by small taxpayers in Nairobi City County, Kenya. The variables of the study included electronic, print media and stakeholders' sensitization programme and tax compliance. This study employed a descriptive research design. The study targeted all small taxpayers in the four tax stations/districts in Nairobi, who were approximately 839,560 taxpayers (employees and small-scale traders). The study used probability sampling and stratified random sampling method. Random sampling technique was used later to sample individual taxpayers within the stratum to eliminate research bias. It was shown that investing in Electronic communication channel is very expensive to implement and sustain but government must make effort since this is one of the factors that increase compliance among small taxpayers in Nairobi County.

#### **2.4.2 Electronic Tax Payer Education and VAT Compliance**

(Ming et al, 2010) looked at the ICT skills relevant when it comes to taxation matters and compliance. Survey was the adopted design in this inquiry with gathering of the views of the participants being done through questionnaires. The inquiry did note a direct link between knowledge of ICT and the ability of the taxpayers to comply. The inquiry shared that ICT skills are instrumental in driving the ability of the taxpayers to comply.

(Wasao, 2014) used a case of small taxpayers in east of Nairobi Tax District to establish the link between online tax system and tax compliance. The study looked focused on online filing system and its effect on tax compliance among small taxpayers in East of Nairobi tax District. The variables used in the study included online tax registration, online tax filing and online tax remittances, and how each is affected by online system in order to enhance compliance. The study adopted quantitative and descriptive methods as a research designs. Data was collected using structured questionnaire, which covered all the variables of the study from 160 sampled taxpayers based in East of Nairobi tax District. It was revealed that online system does affect tax compliance level among small taxpayers in East of Nairobi as far as registration, filing and payments were concerned. The study recommends that a further study should be done to establish how online system not only affect compliance in mines and minerals sector but

also other tax districts of small taxpayers, which are considered more/less, advanced than East of Nairobi tax District.

#### **2.4.3 Taxpayer Sensitization Programs and VAT Compliance**

(Christina et al, 2003) guided an examination to choose the financial and direct factors affecting charge consistency among natives in the USA. The objective of the examination was to choose the money related and lead factors, affecting the obligation consistence among residents, in the Arkansas City forces discipline respite system. (Akorsu, 2015) carried out an evaluation of the effectiveness of revenue mobilization in the public sector of Ghana the case of cape coast metropolitan assembly. This study evaluated the taxpayer's perceptions on the use of Electronic Fiscal Devices (EFDs) by analyzing the benefits of using EFDs in revenue collection; the perceptions of taxpayers towards the use of EFDs and challenges towards the use of the EFDs in revenue collection. The study adopted the survey research design and the sample size of 75 taxpayers was used. The findings show that majority of taxpayers' demonstrated advantages of using EFDs machine in revenue collection. The study findings reveal that EFDs has reduced the time it takes to prepare sales report, secure tax information for auditing purpose and transaction; and ensure tax rate to be paid by the taxpayers. The challenges faced by EFDs users includes high prices of EFD machines, faint fiscal tax invoices, EFD's network problem, lack of taxpayer's education EFDs applications and few suppliers of EFDs machines.

(Joss, 2016) assessed tax policy reform and revenue growth in Liberia: 2005–2015. This study assessed the effects of the tax reforms instituted by the government and its impact on revenue growth in Liberia in detail. In particular, to understand the challenges that is hindering the smooth operation of the Liberia Revenue Authority from collecting legitimate revenue for the state. In order to achieve this, a qualitative methodological approach was adopted to collect data through interviews with the key informants. The findings of the study revealed that the tax policy still has a significant level of weaknesses and compromises. For a successful fiscal policy reform, there should be an interactive forum between the government and the private sector, especially business people as a means of finding common ground on issues of primary concern. Besides, the revenue code needs to be precise and definite in its definition of what is obtainable and what is not. It was gathered that if the ambiguity in the revenue code is removed, it will assist in generate sustainable revenue for the country.

(Suyanto & Trisnawati, 2016) sought to analyze the influence of tax awareness and tax compliance of entrepreneurial taxpayers with Celengan Padjeg Program as a moderating variable. The study used a case of Pratama Tax Office of Wonosari Town. The objectives of this research

were to test the tax awareness in relation to the tax compliance and to examine Celengan Padjeg Program, which acts as a moderating variable to build a relationship between the tax awareness and the tax compliance. This research was conducted using Convenience sampling consisted of 98 respondents from individual taxpayers in Wonosari, Yogyakarta, Indonesia. The sample was fundamentally based on 95 questionnaires. The data analysis method of this research was a multiple regression analysis and test interactions. The analysis results showed that the tax awareness affected the tax compliance with a significance level of 0.000 ( $<0, 05$ ). The Celengan Padjeg Program influenced the relationship between the tax awareness and the tax compliance significantly and it moderated the relationship between two variables.

(Omondi & Theuri, 2019) did a study on taxpayer awareness and compliance costs on tax compliance among small scale traders in Nakuru town, Kenya. The study used descriptive research design. A sample size of 302 was drawn from the target population of 1416 licensed small scale traders by the County government of Nakuru. Data was collected using structured questionnaire. The data was also coded; analysis was done quantitatively using both inferential and descriptive statistics. The data was then summarized in form of tables and charts. The findings revealed that tax awareness, education has a positive and significant effect on the tax compliance, and the cost of compliance has a significant effect on the level of tax compliance. The Kenya Revenue Authority (KRA) holds workshops to sensitize taxpayers on tax compliance. This is usually conducted under stakeholder engagement strategy with objectives of enhancing the taxpayers' understanding needs and concerns (Obura, 2012)

### 2.5 Critique of the Literature Relevant to the Study

Various studies have been reviewed on print media tax taxpayer education, electronic taxpayer education and taxpayer sensitization programs. Most of the reviewed studies indicate that print media play an important role as far as changing the perceptions and attitudes of the taxpayers is concerned. This is consistent with (Djawadi & Fahr (2013), (Atawodi & Ojeka ,2012), Thiga and Muturi (2015) and (Achieng', 2014). Electronic taxpayer education has been recognized from literature as another means of enhancing the level of knowledge of the tax payers and thus the possibility of increased tax compliance. This is well illustrated by (Ming et al, 2010) and (Wasao, 2014). Literature further indicate that taxpayer sensitization covers issues like organization of seminars and workshops which play an important role in educating the tax payers as far as their tax obligations are concerned. However, no study has been conducted that collectively examines print media taxpayer education, electronic taxpayer education and taxpayer sensitization programs as variables affecting VAT compliance. Also, no

study has been carried out covering the hotels in Kisumu County, Kenya.

### 2.6 Summary

On print media tax taxpayer education, (Achieng', 2014) studied the effect of print media reporting of taxation issues in Kenya. Pere and Theuri (2019) did a study on communication channels and tax compliance in Kenya by small taxpayers in Nairobi City County, Kenya. With respect to electronic taxpayer education, (Ming et al, 2010) analyzed the interaction between ICT skills during taxation and the ability of the taxpayers to comply. Wasao (2014) used a case of small taxpayers in east of Nairobi Tax District to establish the link between online tax system and tax compliance.

In view of taxpayer sensitization programs, (Christina et al, 2003) guided an examination to choose the financial and direct factors affecting charge consistency among natives in the USA. (Akorsu, 2015) carried out an evaluation of the effectiveness of revenue mobilization in the public sector of Ghana the case of cape coast metropolitan assembly. (Joss, 2016) assessed the effects of the tax reforms instituted by the government and its impact on revenue growth in Liberia in detail. (Suyanto & Trisnawati, 2016) sought to analyze the influence of tax awareness and tax compliance of entrepreneurial taxpayers with Celengan Padjeg Program as a moderating variable using a case of Pratama Tax Office of Wonosari Town. (Omondi & Theuri, 2019) did a study on taxpayer awareness and compliance costs on tax compliance among small scale traders in Nakuru town, Kenya.

### 2.7 Research Gaps

This chapter has reviewed a number of past empirical studies. For instance, (Djawadi & Fahr, 2013) analyzed the effect of assessment learning and spending on expense consistence in Germany. This study was conducted in Germany and not in Kenya hence a contextual gap. (Achieng', 2014) studied the effect of print media reporting of taxation issues in Kenya. (Pere & Theuri, 2019) did a study on communication channels and tax compliance in Kenya by small taxpayers in Nairobi City County, Kenya. Some of these covered taxation in general without specific reference to VAT hence creating a conceptual gap.

(Wasao, 2014) used a case of small taxpayers in east of Nairobi Tax District to establish the link between online tax system and tax compliance. The study covered firms in Nairobi and not in Kisumu. (Akorsu, 2015) carried out an evaluation of the effectiveness of revenue mobilization in the public sector of Ghana the case of cape coast metropolitan assembly. (Joss, 2016) assessed the effects of the tax reforms instituted by the government and its impact on revenue growth in Liberia in detail. These studies were not conducted in Kenya but in other countries hence creating contextual gap using a case of Pratama Tax Office of Wonosari Town.



(Omondi & Theuri, 2019) did a study on taxpayer awareness and compliance costs on tax compliance among small-scale traders in Nakuru town, Kenya. The study focused on SMEs operating in Nakuru and not in Kisumu County hence the gap.

### 3. RESEARCH METHODOLOGY

#### 3.1 Introduction

The methodologies for providing answers to the established questions of the study are detailed in this chapter.

#### 3.2 Research Design

This study adopted a descriptive research design, which is best for this study as it will describe characteristics associated with the subject population. According to (Coopers & Schindler, 2003), descriptive design will discover and measure the cause and effect of relationships between variables. The descriptive research determines and report the way things are and provide the alternative possible behavior, attitudes, ideals and characteristics of such things (Mugenda, 2003).

The researcher used a descriptive research design because this enabled the researcher to collect a large quantity of information about the population under study. A survey design was appropriate as the data required for analysis was collected from a large population that is Hotels registered within Kisumu County, Kenya. The descriptive design was appropriate in the study since it was accurate, factual and systematic. The descriptive approach was incorporated with the survey design to enable the researcher to collect comprehensive qualitative and quantitative data that enriched the outcome of the study. For that reason, the approach enabled the researcher to establish impact of Taxpayer Education on VAT Compliance among Hotels in Kisumu County.

#### 3.3 Target Population

Population is a list of items that have common observable features, which are of greater interest to the researcher (Yin, 2015). There are 250 registered hotels in Kisumu Central Business District (Kisumu County, 2019). These hotels are classified based on star rating.

See annex Table 3.1 Target Population

#### 3.4 Sampling Frame

The sampling frame describes the list of all population units from which the sample will be selected (Kothari, 2004). It is a physical representation of the target population and comprises all the units that are potential members of a sample (Kothari, 2008). For this study, the sampling frame was made of a list of all hotels operating in Kisumu County classified according to their star rating.

#### 3.5 Sample and Sampling Technique

This section covers the sample and sampling techniques used in the study:

##### 3.5.1 Sample

Sampling entails the selection of part of the population that represents the characteristics of the entire group. Sampling is

advantageous in the sense that it saves on time and cost since it is easier to deal with the small group (sample) that represents an entire population than analyzing the whole group of interest. Sampling is the process of selecting units from a population of interest (Trochim, 2005). It is through sampling that the study is able to get a well determined sample for generalization of the results.

#### 3.5.2 Sampling Technique

There are two basic types of sampling techniques: probabilistic and non-probabilistic. The essence of probabilistic sampling technique is to ensure that every element within the population has an equal chance of being selected to form the sample size (Trochim, 2005), as opposed to non-probabilistic sampling. Stratified random sampling was used in the study to determine the sample size. The sample size shall first be determined using (Yamane, 1967) as illustrated below;

$$n = N / (1 + Ne^2)$$

n = is the desired sample size (when population is less than 10,000)

N = is the target population

e = is the acceptable margin of error estimated at 0.05 (at 95% confidence interval)

$$\text{Therefore, Sample size (n)} = 250 / (1+250(0.0025)$$

$$= 250 / 1.625$$

$$n=153 \text{ respondents}$$

See annex Table 3.2: Sample Size

#### 3.6 Data Collection Instruments

The study used primary data. Structured questionnaires were used. The questionnaire contained close-ended questions. Furthermore, questionnaires have standardized answers that make it simple to compile data. The study targeted one person per Hotel either Hotel owners, Managers or in charge. Questionnaires gave the respondents adequate time to respond to the questions owing to their busy schedules. The research study mostly relied on primary data.

#### 3.7 Data Collection Procedures

The study sought for a letter of introduction from the department in the University in charge. This letter gave authority to gather data from the respondents in the field. The study notified the authority and management team of all the hotels in Kisumu on the intended study. Research permit from NACOSTI was obtained which further reinforced the authority to gather information from field among the respondents. The study hired three research assistants who helped in distribution of the questionnaires to respondents. These research assistants were trained for a period of two weeks on ethical requirements during data collection as well as on the objectives of the study.

#### 3.8 Pilot Study

The pilot data allowed for pre-testing of the research instrument and was not included in the actual study. The clarity of the research instrument to the respondents was

necessary to enhance the instruments validity and reliability. Mugenda and Mugenda (2004) argue that a pilot study can comprise of 1-10% of the target population. Thus, this study selected 20 respondents to take part in the pilot study and they were not included in the final sample size.

### 3.8.1 Reliability of the research instruments

Reliability of an instrument is the measure of the degree to which a research instrument yields consistent results or data after repeated trials (Mugenda, 2003). According to (Shangverzy, 2003), reliability refers to the consistency of measurement and is frequently assessed using the test-retest reliability method. The reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and using uniform procedures. The study computed the values of Cronbach Alpha coefficients in order to determine reliability of the instruments. (Cronbach, 1951) argues that values above 0.7 show that the instrument is reliable.

### 3.8.2 Validity of the Research Instrument

According to Berg and Gall (1989), validity is the degree by which the sample of test items represents the content the test is designed to measure. Mugenda and Mugenda (2003) contend that the usual procedure in assessing the validity of a measure is to use professional or expert in a particular field. The researcher relied on expert opinion to measure the validity of the data. Validity is the extent to which a research instrument measures what it ought to measure (Kothari, 2004). In this reason, the term validity refers the degree to which an instrument asks the right questions in terms of accuracy. The validity of the research instrument was determined in two ways. First, the questions in the questionnaires were discussed with the supervisor. Secondly, the researcher conducted a pilot test of the questionnaire to make sure it was understandable and acceptable to the intended audience. This helped redefine the emerging issues on the study instruments.

## 3.9 Data Analysis and presentations

The analysis was conducted descriptively and inferentially. The key tools that were adopted during analysis included frequencies and percentages (descriptive statistics) and correlation and regression (inferential statistics).

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

Where:

Y = VAT Compliance

X1 = Print media tax taxpayer education

X2 = Electronic tax payer education

X3 = Taxpayer sensitization programs

$\beta$  = constant,

e=Error term

### 3.9.1 Variable definition and Measurement

Table 3.3 gives a breakdown of the variables and their operationalization.

**See annex Table 3.3 Variable definition and Measurement**

### 3.9.2 Diagnostic Tests

The study carried out diagnostic tests to ensure that the data is well suited for carrying out regression analysis. These tests included multicollinearity, normality and heteroscedasticity. To test for multicollinearity, Variance of Inflation Factor (VIF) was used. Values of VIF that are between 1-10 showed that there is no multicollinearity in the data set. Normality was tested using Normal PP plots. Autocorrelation was determined using Durbin Watson Statistic while heteroscedasticity was detected using Scatter plots.

### 3.9.3 Ethical Considerations

This survey endeavored to obtain an informed consent from the respondents before undertaking the collection of data. Objective of the research was explained to the respondents so as to get their informed consent. The level of confidentiality relating to the information received from the respondents is high this will be maintained and the same will be explained to the respondents. The information obtained will only be used for this academic study purposes and will not be shared with third parties without the consent of the respondent(s).

## 4. RESEARCH FINDINGS AND DISCUSSION

### 4.1 Introduction

The findings of analysis are presented in this chapter as obtained from SPSS tool.

### 4.2 Response Rate

From 153 questionnaires that were administered to the respondents, 113 of them were dully filled and returned to the researcher. This was equivalent to a response rate of 73.9%

#### See annex Figure 4.1: Response Rate

The response rate was consistent with Mugenda and Mugenda (2003) who argued that a response rate of above 70% is deemed to be good for analysis and presentation of the findings.

### 4.3 Reliability Results

The researcher-determined reliability of the instrument computing the values of Cronbach Alpha Coefficients

#### See annex Table 4.1: Reliability Results

The results in Table 4.1 give Cronbach Alpha Coefficient values above 0.7 across all the variables of the study. This could be an indication that reliable scale was adopted in formulation of the questionnaire.

### 4.4 General Information

The general information of the respondents covering their gender, level of education, years of experience and period of organizational existence was determined and summarized

#### See annex Table 4.2: General Information

Table 4.2 presents the analysis of the general information on the respondents and the studied firms. From the findings, majority of the respondents (77.0%) were male, with diplomas (44.2%) and degree and above (23.9%) as their highest level of education, having worked for a period of 4-7 years (41.6%) and 2-4 years (36.3%) in organizations that had operated for 4-7 years (45.1%) and Over 7 years (42.5%). The implications from the findings are that representative findings were sought

from learnt and experienced staff who had worked in their organizations for a relatively longer period of time thus knowledgeable enough on issues of taxpayer education and compliance behavior as far as VAT was concerned.

#### 4.5 Descriptive Statistics

This section details the findings of descriptive statistics on VAT compliance as the dependent variable and print media tax education, electronic taxpayer education and taxpayer sensitization programs as the independent variables.

##### 4.5.1 VAT Compliance

The dependent variable of the study was VAT compliance. In this regard, the respondents were asked to indicate whether their organization had been registered for VAT tax obligation.

##### **See annex Table 4.3: Registration of VAT Obligation**

From Table 4.3, majority of the studied hotels (72.6%) had registered for VAT tax obligation. Registration is one of the indicators of compliance with tax obligation, it thus implies that majority of the studied hotels were compliant with their VAT obligations.

A number of statements were generated on a five Likert scale on VAT compliance where respondents were asked to indicate the extent of their agreement. The results were determined and summarized.

##### **See annex Table 4.4: Likert Based Analysis of VAT Compliance**

The results provide a summary of the Likert based responses on VAT compliance. From the results, on filing of returns within stipulated time, 66.4% of the respondents agreed with a tie at 13.3% between those who were neutral and disagreed respectively while 7.1% strongly agreed. This means that the studied hotels filled their VAT returns within the required timeframe. Ideally, KRA require registered taxpayers to remit their VAT dues by 20th of any subsequent month. Thus, the studied hotels filled their VAT returns on or before 20th of any subsequent month in line with the requirements of the law.

In view of whether all the required details were declared when filing VAT returns, 61.1% of the respondents agreed, 26.5% were neutral, 7.1% disagreed and 5.3% strongly agreed. Some of the relevant details when filing VAT returns are in regards to the payable amount, the nature of goods like zero rated products among other details. Correct declaration of these details would enable KRA to track collection of VAT as well as during VAT audits. It also allows KRA to carry out compliance checks on VAT returns more easily and conveniently.

Concerning whether the firm paid VAT as declared on the filed returns, 67.3% of the respondents agreed, 19.5% strongly agreed, 8.0% disagreed and 5.3% were neutral. This implies that the studied hotels paid accurate and due amount of VAT which was consistent with the tax laws guiding tax administration.

##### 4.5.2 Print Media Taxpayer Education

The first independent objective variable of the study was print media taxpayer education. Thus, respondents were requested to indicate whether their organization relied on print media to gain knowledge on VAT taxes

##### **See annex Figure 4.2 Reliance on Print Media to Gain VAT Knowledge**

The results in Figure 4.2 are that majority of the studied firms (74.3%) leveraged on print media platforms to gain VAT related knowledge. Pamphlets regarding VAT taxes with applicable rates are usually published by KRA that majority of the respondents relied on so as to gain knowledge with regard to matters of VAT.

The researcher formulated a number of statements on print media taxpayer education where respondents were provided with a five-point Likert scale to share their relevant responses.

##### **See annex Table 4.5: Likert Based Responses on Print Media Taxpayer Education**

The results in Table 4.5 provide the descriptive analysis of print media taxpayer education. From the findings, on whether the respondents read magazines to know how to file VAT return, 67.3% agreed, 15.9% were neutral, 10.6% strongly disagreed and 6.2% disagreed. This implies that magazines were relevant print media channels that enabled the taxpayers to gain relevant information with regard to their tax obligations.

As to whether the respondents read newspapers to gain information on payment of VAT, 66.4% of the respondents agreed, 13.3% were neutral, 10.6% disagreed and 9.7% strongly agreed. Newspapers fall into different categories; Daily Nation, Standard and the Star among others. Although a desirable means of educating taxpayers about their tax obligations, one disadvantage of newspapers is that they are not relevant to Persons with Disabilities (PWDs) for instance the visually impaired taxpayers hence limited coverage.

With regard to whether the taxpayers read KRA reports to verify the applicable VAT rates, 46.9% of the respondents agreed, 23.0% strongly agreed, 16.8% disagreed and 13.3% were neutral. Thus, close to half of the respondents relied on KRA reports and publications to gain information on VAT. Some of these reports include the strategic plans and reviews that are generated periodically with relevant information on VAT including the changes in the applicable rates.

On whether the respondents got new updates on VAT through KRA publications, 46.0% of the respondents agreed, and 23.9% were neutral, 19.5% strongly agreed and 10.6% disagreed. Thus, majority of the respondents in deed shared that KRA publications enabled them to gain relevant information on VAT. As earlier indicated, some of these publications include quarterly reviews tracking VAT collection.

As to whether the respondents went through KRA strategic plans to determine VAT collection targets, 45.1% of the respondents agreed, 24.8% strongly agreed, 22.1% were

neutral and 8.0% disagreed. This implies that strategic plans published by KRA contained relevant information regarding VAT that majority of the respondents utilized.

The statement on whether the respondents read KRA booklets to gain information on how to pay VAT, 61.9% agreed, 18.6% were neutral, 13.3% strongly agreed and 6.2% disagreed. This implies that KRA booklets were highly utilized by the respondents to gain relevant information regarding their VAT obligations.

#### **4.5.3 Electronic Taxpayer Education**

The study had electronic taxpayer education as the second independent objective variable. In view of this, respondents were asked to indicate whether they relied on electronic media to gain information and knowledge on VAT.

#### **See annex Figure 4.3: Reliance on Electronic media to Gain VAT Knowledge**

The results in Figure 4.3 indicate that most of the respondents (67%) leveraged on electronic media to gain information with regard to their VAT obligations. These platforms covered televisions and radios. One advantage related with some of these electronic platforms like radios is their ability to relay information to large number of taxpayers. The researcher went further and formulated various statements on electronic taxpayer education.

#### **See annex Table 4.6: Likert Based Analysis of Electronic Taxpayer Education**

Table 4.6 provides a summary of the Likert based analysis of e-taxpayer education. From the results, on whether the respondents could pay VAT taxes due to the knowledge gained through televisions, 50.4% agreed, 33.6% were neutral, 12.4% disagreed, 2.7% strongly agreed and 0.9% strongly disagreed. This means that the respondents through TVs gained relevant information on VAT. One advantage related with such information on TVs is the ability to support visual illustrations for instance through graphs.

On whether the respondents knew how to file VAT returns because of the radio announcements, 65.5% agreed, 19.5% strongly agreed, 10.6% disagreed and 4.4% were neutral. This shows that the respondents who took part in the study actually relied on radios to acquire information on VAT. As earlier pointed out, radios are desirable since they support unlimited access to VAT information among the taxpayers. In fact, there are radio stations that do broadcast through vernacular languages for instance Kameme FM and Ramogi FM. Using some of these radio stations to air out VAT information allow even the illiterate taxpayers to acquire information and thus ideal.

In respect to use of online tutorials on i-tax to learn how to file VAT returns, 59.3% of the respondents agreed, 18.6% strongly agreed, 13.3% were neutral and 8.8% disagreed. This implies that online tutorials played an important role in enabling the taxpayers to gain relevant information on VAT. Just like the TVs, the online tutorials also support visual

illustrations of the concept of VAT, which may enable taxpayers to systematically follow the procedures. Questions as to when to pay the VAT, how it should be paid and file the returns are easily answered through these on-line tutorials.

On use of the internet to determine the applicable VAT rates in the firm, 68.1% of the respondents agreed, 20.4% strongly agreed, 7.1% were neutral and 4.4% disagreed. Through internet, the taxpayers are able to access the KRA website that has relevant information on VAT obligations. The only disadvantage of use of internet is that a cost of data bundles is borne by the taxpayers whenever they try to access KRA systems. The other disadvantage could be system downtime, making it hard for some of the respondents to access the website on time perhaps due to the network traffic.

#### **4.5.4 Taxpayer Sensitization Programs**

The researcher focused on taxpayer sensitization programs as another independent specific objective variable. In view of this, respondents were asked to indicate if they were aware of taxpayer sensitization programs in place at KRA aimed at educating taxpayers on their tax obligations

#### **See annex Table 4.7: Awareness of Taxpayer Sensitization Programs at KRA**

The results in Table 4.7 show that majority of the respondents (82.3%) were aware of the taxpayer sensitization programs in place at KRA. Some of these programs include seminars, workshops and exhibitions that are organized by KRA where taxpayers can attend and get useful information on their tax obligations. A summary of the Likert based analysis of the taxpayer sensitization programs is as shown in Table 4.8.

#### **See annex Table 4.8: Likert Based Analysis of the Taxpayer Sensitization Programs**

Table 4.8 provides a summary of the descriptive statistics on taxpayer sensitization programs at KRA. From the findings, on whether the respondents attended seminars organized by KRA to gain more information on VAT registration, 57.5% agreed, 27.4% were neutral, 11.5% strongly agreed and 3.5% disagreed. This implies that KRA organized seminars where the taxpayers attended and gained information on VAT. The advantage with such seminars is that the taxpayers have a personal interaction with the tax officials where all their concerns can be answered. This is contrary to other forms of taxpayer's education for instance the print and electronic media where there is physical absence of the tax officials to respondent to the concerns of the taxpayers.

As to whether the respondents attended forums organized by KRA to gather personalized information on filing of VAT, 51.3% of the respondents agreed, 31% disagreed with a tie at 8.8% between those who strongly agreed and the neutral ones respectively. This infers that forums were organized by KRA where the taxpayers were eager to attend so as to gain relevant knowledge and information on their VAT obligations. Just like seminars, forums also allow one on one interaction

between the taxpayers and the tax officials where individuals concerns can be handled more conveniently.

On attending workshops organized by KRA to gather information on payment of VAT, 39.8% of the respondents agreed, 23% strongly agreed, 21.2% disagreed and 15.9% were neutral. By combining those who agreed and strongly agreed, it can be inferred that over half of the respondents attended workshops organized by KRA to discuss issues revolving around VAT obligations.

As to whether the respondents attended the annual tax month organized by KRA to be updated on new VAT laws, 41.6% agreed, 24.8% were neutral, 23.9% strongly agreed and 9.7% disagreed. Thus, over half of the respondents acknowledged the role played by the annual tax month in providing relevant information to the taxpayers.

#### 4.6 Diagnostic Tests

The study conducted diagnostic tests to determine relevance of the data in supporting the assumptions of regression analysis. The specific tests that were performed include normality, multicollinearity and Heteroscedasticity as shown in the subsequent sections.

##### 4.6.1 Multicollinearity Test

To test for multicollinearity, Variance of Inflation Factor (VIF) was used. Values of VIF that are between 1-10 showed that there is no multicollinearity in the data set.

##### See annex Table 4.9: Multicollinearity Test

Table 4.9 gives the value of the mean VIF as 1.962, which is within the threshold of 1-10. Thus, it can be inferred that there was no multicollinearity symptom in the data and thus suitable for carrying out regression analysis.

##### 4.6.2 Normality Test

Normality was graphically tested using the histogram as indicated in Figure 4.4.

##### See annex Figure 4.4: Histogram for Normality Test

By observing the distribution of the histogram indicated in Figure 4.4, the peak of the normal line falls almost exactly in line with the highest bar graph. This is an indication that the data used in the study was normally distributed and thus suitable for regressing taxpayer education and VAT compliance.

##### 4.6.3 Heteroscedasticity Test

Heteroscedasticity will be detected using Scatter plots as shown in Figure 4.5.

##### See annex Figure 4.5: Scatter Plot for Heteroscedasticity Test

An examination of the distribution of the standardized residual against the standardized predicted values show widely spread values with no clearly established pattern. This could be an indication that the data had homoscedasticity which desirable for carrying out regression analysis.

#### 4.7 Inferential Analysis

After verifying that the data was suitable for carrying inferential statistics, correlation and regression analysis were

performed. The findings were determined and summarized as shown in the subsequent sections.

##### 4.7.1 Correlation Analysis

Correlation analysis was conducted to establish the relationship between taxpayer education and VAT compliance. The results were determined and summarized as indicated in Table 4.11.

##### See annex Table 4.11: Correlation Analysis

Table 4.11 indicate that while there exists strong positive relationship between taxpayer sensitization program ( $r=0.794$ ), print media taxpayer education ( $r=.596$ ) and VAT compliance, electronic taxpayer education ( $r=0.113$ ) had a weak and positive relationship. Thus, it can be inferred that taxpayer education is directly related with VAT compliance among hotels in Kisumu.

##### 4.7.2 Regression Results

Table 4.12 gives the regression model summary of the study.

##### See annex Table 4.12: Regression Model Summary

As per the results in Table 4.12, the coefficient of determination R square is given as 0.631; which implies that 63.1% change in VAT compliance among hotels in Kisumu is explained by taxpayer education. This means that apart from taxpayer education, there still exists other factors with an effect on VAT compliance among these hotels that should be focused by the future studies.

Table 4.13 gives a summary of the Analysis of Variance (ANOVA) of the overall regression model of the study.

##### See annex Table 4.13 Analysis of Variance

As per the findings in Table 4.13, the value of F calculated is given as 62.238 while F critical (determined at degrees of freedom 3 & 109) is equivalent to 2.688. Since the value of F calculated is far above the F critical value, the inference drawn from this is that the overall regression model of the study was significant in predicting the effect of taxpayer education and VAT compliance.

##### See annex Table 4.14: Regression Beta Coefficients and Significance

From Table 4.14, the following equation is predicted between taxpayer education and VAT compliance:

$$Y = 5.065 + .102X_1 + .124X_2 + .455X_3$$

Where:

$$Y = \text{VAT Compliance}$$

$$X_1 = \text{Print media taxpayer education}$$

$$X_2 = \text{Electronic taxpayer education}$$

$$X_3 = \text{Taxpayer sensitization programs}$$

From Table 4.14, it can be inferred that a unit dollar investment in print media taxpayer education would increase VAT compliance among hotels in Kisumu by 0.1902 dollars. Increasing electronic taxpayer education by a unit would lead to 0.124-unit increase in VAT compliance among hotels in

Kisumu. A unit increase in taxpayer sensitization programs would lead to 0.455-unit increase in VAT compliance. Thus, taxpayer sensitization programs have largest effect on VAT compliance followed by electronic taxpayer education and lastly print media taxpayer education.

Taking the level of significance as 0.05, the study noted that print media taxpayer education had p-value ( $p < 0.05$ ), implying that it significantly affected VAT compliance among hotels in Kisumu. The result concurs with (Pere & Theuri, 2019) who noted that investing in Electronic communication channel is very expensive to implement and sustain but government must make effort since this is one of the factors that increase compliance among small taxpayers. It was shown that electronic taxpayer education had p-value ( $p < 0.05$ ), which infers that it had significant effect on VAT compliance among hotels in Kisumu. The result is consistent with (Wasao, 2014) who shared that online system do affect tax compliance level among small taxpayers in East of Nairobi as far as registration, filing and payments were concerned. It was noted that taxpayer sensitization programs had p-value which was less than 0.05, this means that they had significant effect on VAT compliance among hotels in Kisumu. Similarly, in a study by (Suyanto & Trisnawati, 2016), it was shown that the tax awareness affected the tax compliance with a significance level of 0.000 ( $< 0, 05$ ).

## **5.SUMMARY,CONCLUSIONSAND RECOMMENDATIONS**

### **5.1 Introduction**

The essence of this chapter is to detail a summary of the analyzed findings guided by the specific objectives. The conclusions drawn from the key findings are also indicated in this chapter. The recommendations with relevant implications on management, policy and practice are also presented in the chapter.

### **5.2 Summary of the Findings**

This section provides a summary of the analyzed findings based on the specific objectives that guided the study.

#### **5.2.1 Print Media Taxpayer Education and Value Added Tax Compliance**

From the results, majority of the studied firms leveraged on print media platforms to gain VAT related knowledge. Majority of the respondents shared that they read magazines, newspapers and the KRA booklets to know how to file VAT return. Both correlation and regression pointed out existence of a significant link between taxpayer education realized through print media and compliance with VAT.

#### **5.2.2 Electronic Taxpayer Education and Value Added Tax Compliance**

The results indicated that most of the respondents used electronic media to gain information with regard to their VAT obligations. Majority of the respondents agreed that they relied on the internet, radio announcements, online tutorials and televisions to gain relevant information with regard to

VAT obligations. From the results of correlation analysis, e-taxpayer education had weak but direct relationship with VAT compliance. The results of regression analysis were that e-taxpayer education significantly affects VAT compliance.

#### **5.2.3 Taxpayer Sensitization Programs and Value Added Tax Compliance**

The results show that majority of the respondents were aware of the taxpayer sensitization programs in place at KRA. From the results, majority of the respondents agreed that they attended tax seminars, forums and annual tax months to gain information on VAT. From correlation analysis, taxpayer sensitization programs had strong and direct relationship with VAT compliance. Based on the findings of regression analysis, it was shown that taxpayer sensitization programs have significant effect on VAT compliance.

### **5.3 Conclusion**

The study sought to determine the effect of print media taxpayer education on VAT compliance among hotels in Kisumu County. Based on descriptive statistics, majority of the respondents were aware of the print media taxpayer education channels at KRA and they were highly used to disseminate relevant information on VAT to the taxpayers. Based on both correlation and regression results, the study conclude that the print media taxpayer education is key in driving VAT compliance among hotels operating in Kisumu County.

The second objective of the study sought to assess the effect of electronic taxpayer education on VAT compliance among hotels in Kisumu County. As per descriptive statistics, the studies conclude that KRA had e-taxpayer programs that most of the taxpayers in hotel sector in Kisumu County had their knowledge. In view of the correlation and regression results, the study conclude that e-taxpayer education significantly predicts VAT compliance with respect to hotels operating in Kisumu County.

The last objective of the study was to determine the effect of taxpayer sensitization programs on VAT compliance among Hotels in Kisumu County. In view of the descriptive statistics, the study concludes that KRA had in place various programs to sensitize the taxpayers for instance seminars and forums. In line with the inferential statistics, the study concludes that the taxpayer sensitization programs at KRA have significantly enhanced VAT compliance among hotels in Kisumu County.

### **5.4 Recommendations for Management, Policy and Practice**

The results of regression beta coefficients showed that, taxpayer sensitization programs had the largest effect on VAT compliance followed by electronic taxpayer education and lastly print media taxpayer education. Based on this finding, this study recommends to the senior management at KRA to invest more in taxpayer sensitization programs like forums,

seminars and tax holidays with least emphasis on print media channels.

The policy makers at KRA designing taxpayer education programs should focus more on enhancing the existing taxpayer sensitization programs and e-taxpayer's education channels since this would greatly enhance VAT compliance.

The various practitioners including the public relations managers at KRA should advice for increased adoption of taxpayer sensitization programs and e-taxpayer education platforms like tutorials and TVs when designing taxpayer education programs at KRA.

### 5.5 Suggestions for Further Research

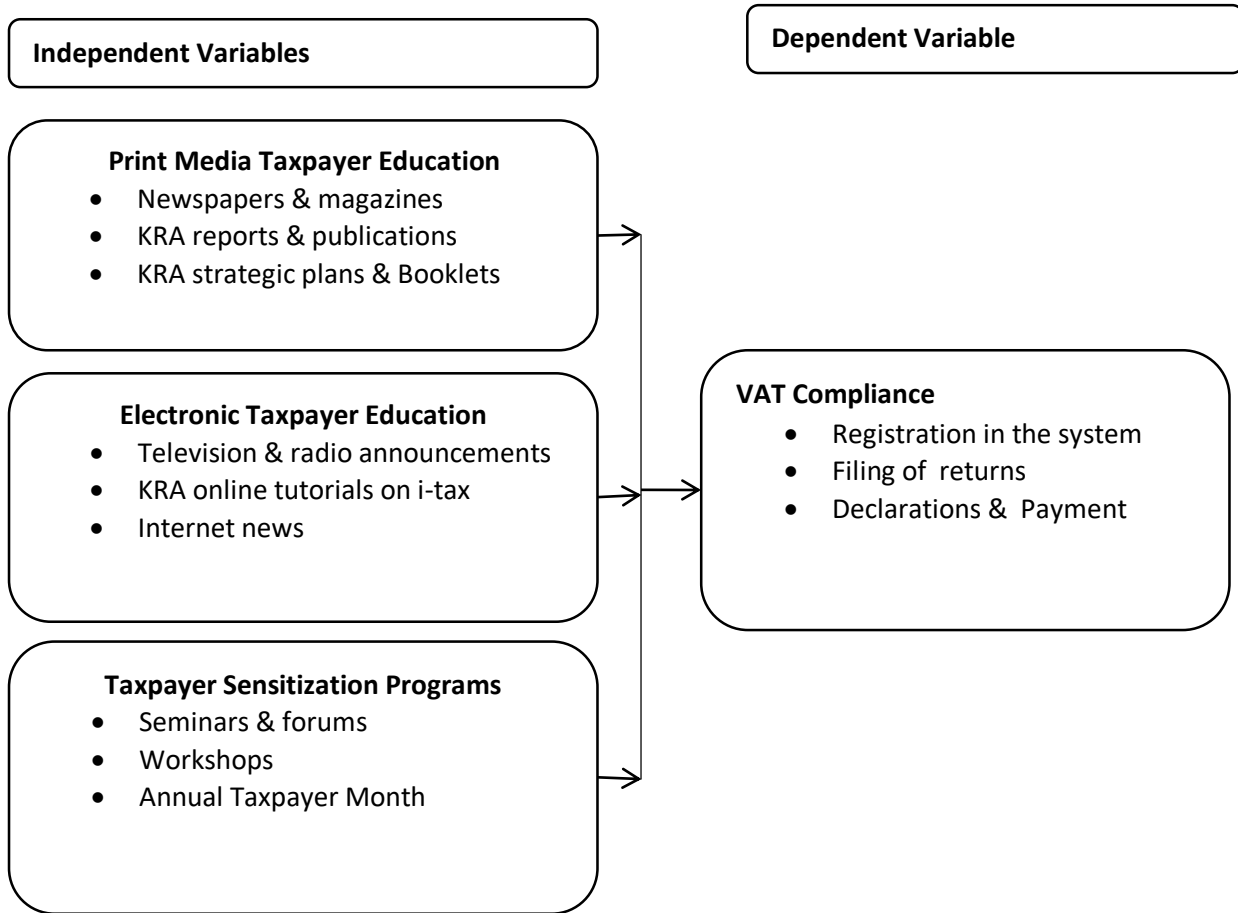
The present study focused on VAT as a tax head, future studies should be conducted focusing on other aspects of taxation like Pay as you earn (PAYE), corporate income tax and turnover tax among other tax heads. Future studies should use other indicators of taxpayer education aside from print media, electronic and taxpayer sensitization programs.

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**Figure 2.1: Conceptual Framework**

Source; Author (2020)

**Table 3.1: Target Population**

<b>Hotel Rating</b>	<b>Population</b>	<b>Proportion</b>
One-Star Hotels	30	12.0
Two-Star Hotels	35	14.0
Three-Star Hotels	40	16.0
Four Star Hotels	50	20.0
Five Star Hotels	95	38.0
<b>Total</b>	<b>250</b>	<b>100.0</b>

Source; Kisumu County (2019)

**Table 3.2: Sample Size**

<b>Hotel Rating</b>	<b>Population</b>	<b>Sample Proportion</b>	<b>Sample Size</b>
One-Star Hotels	30	12.0	18
Two-Star Hotels	35	14.0	21
Three-Star Hotels	40	16.0	24
Four Star Hotels	50	20.0	31
Five Star Hotels	95	38.0	58
<b>Total</b>	<b>250</b>	<b>100.0</b>	<b>153</b>

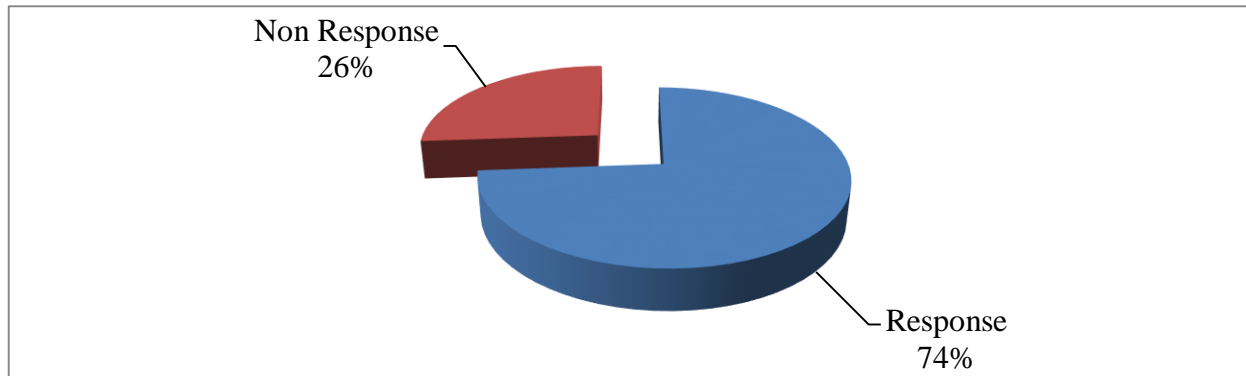
Source; Kisumu County (2019)

**Table 3.3: Variable definition and Measurement**

Objective	Type of Variable	Measures	Scale
To determine the effect of print media taxpayer education on VAT compliance among hotels in Kisumu County	Independent print media tax taxpayer education	<ul style="list-style-type: none"> <li>• Newspapers &amp; magazines</li> <li>• KRA reports &amp; publications</li> <li>• KRA strategic plans &amp; Booklets</li> </ul>	<ul style="list-style-type: none"> <li>• Ordinal scale</li> <li>• Nominal Scale</li> </ul>
To assess the effect of electronic taxpayer education on VAT compliance among hotels in Kisumu County	Independent electronic taxpayer education.	<ul style="list-style-type: none"> <li>• Television &amp; radio announcements</li> <li>• KRA online tutorials on i-tax</li> <li>• Internet news</li> </ul>	<ul style="list-style-type: none"> <li>• Ordinal scale</li> <li>• Nominal Scale</li> </ul>
To determine the effect taxpayer sensitization programs on VAT compliance among Hotels in Kisumu County	Independent taxpayer sensitization programs	<ul style="list-style-type: none"> <li>• Seminars &amp; forums</li> <li>• Workshops</li> <li>• Annual Taxpayer Month</li> </ul>	<ul style="list-style-type: none"> <li>• Ordinal scale</li> <li>• Nominal Scale</li> </ul>
VAT compliance a among Hotels in Kisumu County	Dependent VAT compliance	<ul style="list-style-type: none"> <li>• Registration in the system</li> <li>• Filing of returns</li> <li>• Declarations &amp; Payment</li> </ul>	<ul style="list-style-type: none"> <li>• Ordinal scale</li> <li>• Nominal Scale</li> </ul>

**Source; Author (2020)**

**Figure 4.1: Response Rate**



**Table 4.1 Reliability Results**

Variable	No. of Items	Cronbach Alpha Coefficient
VAT Compliance	3	.896
Print media taxpayer education	6	.759
Electronic taxpayer education	4	.793
Taxpayer sensitization programs	4	.872

**Table 4.1: General Information**

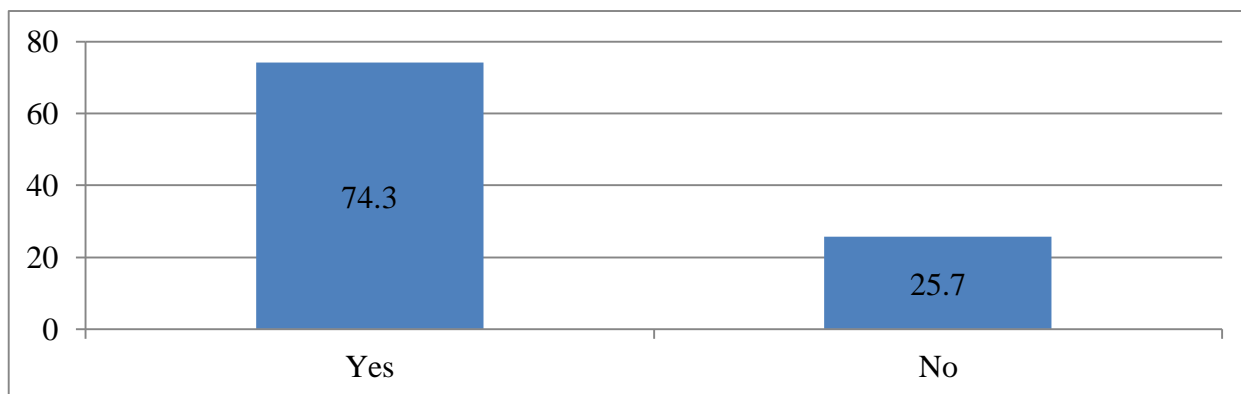
Category	Classification	Frequency	Percentage
Gender of respondents	male	87	77.0
	female	26	23.0
	<b>Total</b>	<b>113</b>	<b>100.0</b>
Level of Education	Primary certificate	4	3.5
	Secondary Certificate	8	7.1
	College Certificate	24	21.2
	Diploma	50	44.2
	Degree and above	27	23.9
	<b>Total</b>	<b>113</b>	<b>100.0</b>
Years of Experience	Less than 2 years	13	11.5
	2-4 years	41	36.3
	4-7 years	47	41.6
	Over 7 years	12	10.6
	<b>Total</b>	<b>113</b>	<b>100.0</b>
Period of Organizational Existence	Less than 2 years	7	6.2
	2-4 years	7	6.2
	4-7 years	51	45.1
	Over 7 years	48	42.5
	<b>Total</b>	<b>113</b>	<b>100.0</b>

**Table 4.2: Registration of VAT Obligation**

	Frequency	Percentage
Yes	82	72.6
No	31	27.4
<b>Total</b>	<b>113</b>	<b>100.0</b>

**Table 4.3: Likert Based Analysis of VAT Compliance**

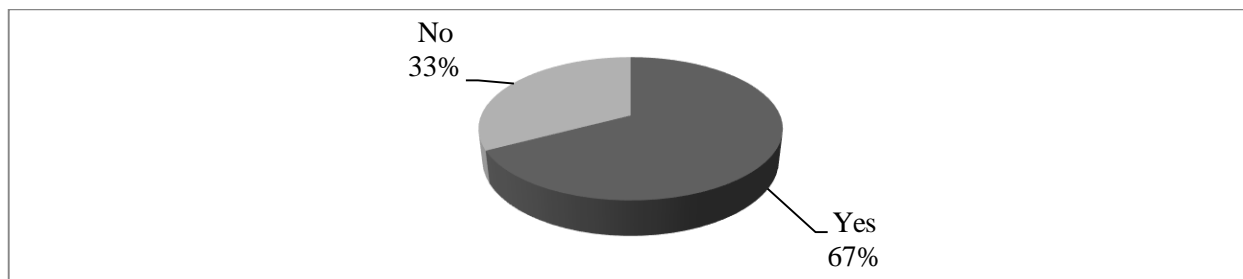
Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
The firm files its VAT returns within a stipulated time	0.0%	13.3%	13.3%	66.4%	7.1%
The firm declares s all the required details when filing its VAT returns	0.0%	7.1%	26.5%	61.1%	5.3%
The firm pays VAT as declared on the filed returns	0.0%	8.0%	5.3%	67.3%	19.5%

**Figure 4.2: Reliance on Print Media to Gain VAT Knowledge**

**Table 4.4: Likert Based Responses on Print Media Taxpayer Education**

Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
I read magazines to know how to file VAT return	0.0%	6.2%	15.9%	67.3%	10.6%
I read newspapers to gain information on payment of VAT	0.0%	10.6%	13.3%	66.4%	9.7%
I read KRA reports to verify the applicable VAT rates	0.0%	16.8%	13.3%	46.9%	23.0%
I get new updates on VAT through KRA publications	0.0%	10.6%	23.9%	46.0%	19.5%
I go through KRA strategic plans to determine VAT collection targets	0.0%	8.0%	22.1%	45.1%	24.8%
I read KRA booklets to gain information on how to pay VAT	0.0%	6.2%	18.6%	61.9%	13.3%

**Figure 4.3: Reliance on Electronic media to Gain VAT Knowledge**



**Table 4.5: Likert Based Analysis of Electronic Taxpayer Education**

Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
I can pay VAT taxes due to the knowledge gained through televisions	0.9%	12.4%	33.6%	50.4%	2.7%
I know how to file VAT returns because of the radio announcements	0.0%	10.6%	4.4%	65.5%	19.5%
I use online tutorials on i-tax to learn how to file VAT returns	0.0%	8.8%	13.3%	59.3%	18.6%
I use the internet to determine the applicable VAT rates in the firm	0.0%	4.4%	7.1%	68.1%	20.4%

**Table 4.6: Awareness of Taxpayer Sensitization Programs at KRA**

	Frequency	Percentage
Yes	93	82.3
No	20	17.7
<b>Total</b>	<b>113</b>	<b>100.0</b>

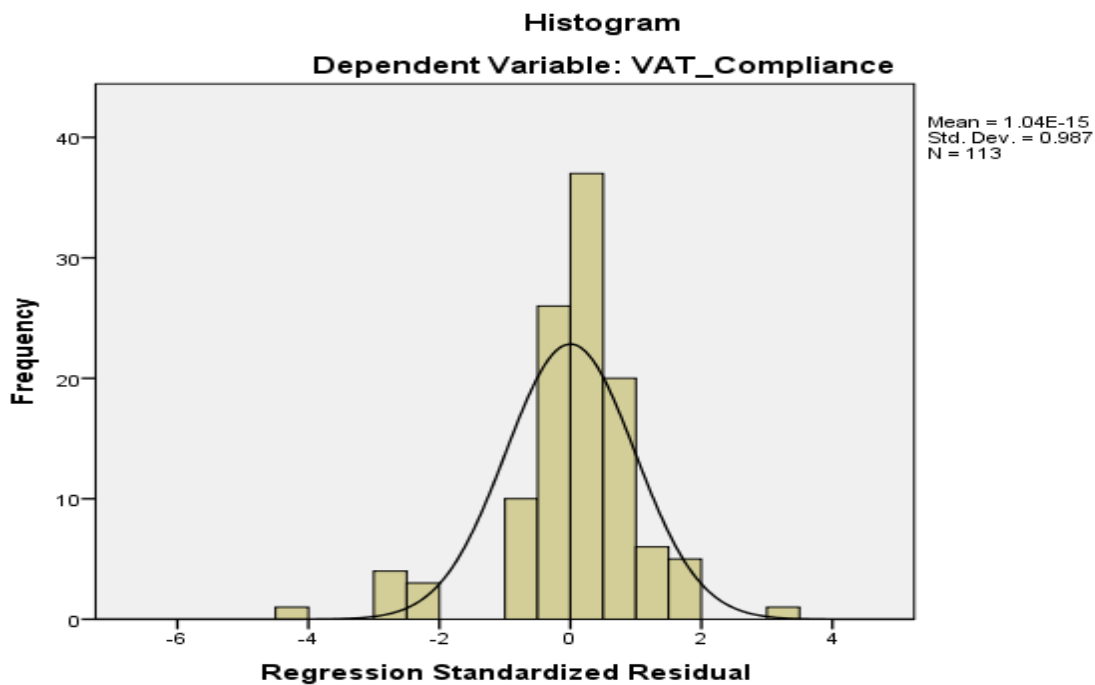
**Table 4.7: Likert Based Analysis of the Taxpayer Sensitization Programs**

Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
I attend seminars organized by KRA to gain more information on VAT registration	0.0%	3.5%	27.4%	57.5%	11.5%
I do attend forums organized by KRA to gather personalized information on filing of VAT	0.0%	31.0%	8.8%	51.3%	8.8%
I attend workshops organized by KRA to gather information on payment of VAT	0.0%	21.2%	15.9%	39.8%	23.0%
I attended the annual tax month organized by KRA to be updated on new VAT laws	0.0%	9.7%	24.8%	41.6%	23.9%

**Table 4.8: Multicollinearity Test**

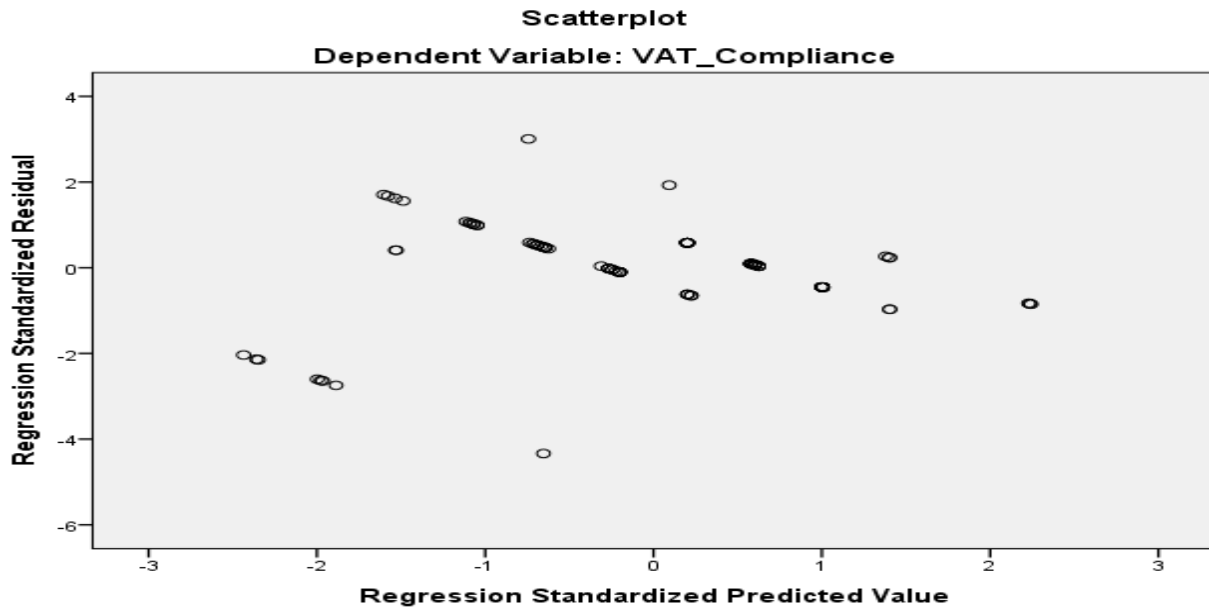
	Collinearity Statistics	
	Tolerance	VIF
Print Media Taxpayer Education	.422	2.368
Electronic Taxpayer Education	.930	1.076
Taxpayer Sensitization Program	.409	2.442
<b>Mean VIF</b>	<b>.587</b>	<b>1.962</b>

**Figure 4.4: Histogram for Normality Test**





**Figure 4.5: Scatter Plot for Heteroscedasticity Test**



**Table 4.9: Correlation Analysis**

		VAT Compliance	Print Media Taxpayer Education	Electronic Taxpayer Education	taxpayer Sensitization Program
VAT Compliance	Pearson Correlation	1			
	Sig. (2-tailed)				
	n	113			
Print Media Taxpayer Education	Pearson Correlation	.596**	1		
	Sig. (2-tailed)	.000			
	n	113	113		
Electronic Taxpayer Education	Pearson Correlation	.113	-.002	1	
	Sig. (2-tailed)	.233	.983		
	n	113	113	113	
Taxpayer Sensitization Program	Pearson Correlation	.794**	.748**	.174	1
	Sig. (2-tailed)	.000	.000	.065	
	n	113	113	113	113

**Table 4.10: Regression Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.795 <sup>a</sup>	.631	.621	.83011

**Table 4. 11: Analysis of Variance**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	128.660	3	42.887	62.238	.000 <sup>b</sup>
Residual	75.110	109	.689		
<b>Total</b>	<b>203.770</b>	<b>112</b>			

a. Dependent Variable: VAT Compliance

b. Predictors: (Constant), Taxpayer Sensitization Program, Electronic Taxpayer Education, Print Media Taxpayer Education

**Table 4.12: Regression Beta Coefficients and Significance**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	5.065	1.120		4.520	.000
Print Media Taxpayer Education	.102	.049	.004	2.082	.018
Electronic Taxpayer Education	.124	.054	.027	2.296	.016
Taxpayer Sensitization Program	.455	.052	.801	8.820	.000

a. Dependent Variable: VAT Compliance