Factors Affecting Turnover Tax Compliance Among Micro Small and Medium Enterprises in Roysambu, Nairobi

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Abstract

The purpose of the study was to analyze factors affecting Turnover Tax Compliance in micro, small and medium enterprises (MSMEs) sector in Roysambu area in Nairobi. The study was guided by three objectives namely; to determine the effects of economic factors on Turnover Tax Compliance in Roysambu area, to determine the effects of political factors on Turnover Tax Compliance in Roysambu area and to determine the effects of psychological factors on Turnover Tax Compliance on MSMEs in Roysambu area. The problem statement was to assess whether the government efforts to reach small traders by introducing turnover tax was enhancing tax compliance among MSMEs. The study was guided by economic theory, social influence theory and theory of reasoned behavior. The study will greatly benefit the government of Kenya since it will contribute to lasting solutions of non-compliance with tax laws in Kenya, this will help Kenya Revenue Authority to meet or reduce the tax revenue collection target gap. The study will also provide insights to the policy makers on the factors to consider while making laws to ensure tax noncompliance level is reduced to minimum levels, this will also go hand in hand in coming up with efficient and effective tax collection policies and systems. The study will help the taxpayers to know what they are supposed to do for them to comply, also help them to know what await them if they do not comply. The study adopted the descriptive and explanatory survey design. The target population was 11,501 respondents. The study collected primary data from a sample of 386 taxpayers which were selected through random sampling. The data collected was tested for validity and reliability and analyzed and economic factors, political factors and psychological factors were found to have significant effect on Turnover Tax Compliance. Multiple regression analysis were performed with; economic factors on Turnover Tax Compliance on Roysambu evidence of $p=0.006$, $\rho<0.05$, on political factors on Turnover Tax Compliance Roysambu evidence of $p=0.003$, $\rho<0.05$ and psychological factors on Turnover Tax Compliance Roysambu evidence of $p=0.000$, $\rho<0.05$. The study then made conclusions on economic factors, political factors and psychological factors that all the independent variables were found to play a significant role in the Turnover Tax Compliance on MSMEs in Roysambu area. The study recommended that KRA should pay attention on Tax rates which affect compliance and amount of tax payable, KRA should also satisfy taxpayer by services offered which will make taxpayer trust the Government. Finally, KRA should look into Perceived pressure that influences Turnover Tax Compliance. Therefore, the study suggests the need for more studies to explore the contribution of determinants of Turnover Tax Compliance in Kenya in more detail.

1. BACKGROUND

1.0. Introduction

This chapter outlines the background information on factors affecting Turnover Tax Compliance in Micro Small and Medium Enterprises (MSMEs) in Nairobi, case study of Roysambu area. The chapter also highlights the; study objectives, statement of problem, scope and study implication.

1.1. Back ground of the study

Taxation plays a major role in the country's economic growth, it is an obligatory payment which is charged by the government on capital assets, income, or expenditure to fund its operations without anticipation of any direct benefit by taxpayers, (Lymer and Oats, 2009).

A country's growth and development is largely dependent on the amount of revenue collected (Dieu & Samuel ,2014) and for this regard tax revenue is a major source of government revenue across the world (Abdul Jabbar,Alshir'ah, ,&Samsudin,2016).The main purpose of tax is to mobilize adequate revenue to finance government spending without sourcing for external borrowings, also used to raise revenue in equitable ways that are not harmful to economic activities (Moyi & Ronge, 2006). After global recession and financial crisis in 2008 attention on enhancing tax collection have gained momentum all over the world. High attention is being directed to large corporations and small and medium enterprises to increase tax revenue collection (Slemrod, 2015).

Taxation is a critical segment in administering national revenue, mostly in industrialized states and thus playing a noteworthy role in their social requests since their inception (Lymer and Oats, 2009). Likewise, it plays a major role in building democracy and institutions by making the government answerable to its citizens. Odd-Helge & Rakner (2009) highlighted that in developing nations whose main income is derived from other sources like natural resources like minerals, oil and gases are associated with poor governance and bad institutions. Availability of high foreign aids can lead to detaching the government from its residents thus no need of Turnover Tax Compliance (Bräutigam & Knack, 2004).

1.1.1. Global perspective

Globally, taxes are the main source of government revenue and forms a major component of their budget agenda (Mwaura, 2019). According to Marina and Kilis, (2002) taxation is the main source of revenue alongside other country source of revenue which includes fees, dividends and foreign aids. Across the world taxation offers a reliable flow of revenue which is used by governments to fund their development projects and social amenities, as a result taxation was recognized by the 2002 Monterrey Consensus for playing a fundamental role in mobilizing resources locally (Akinboade, 2015). According to Atawodi & Ojeka, (2012) revenue from tax is the main income used to fund government projects like roads, electricity health among other projects. Countries budgets relies heavily on tax revenue and thus make tax as a key factor on their budgets (Alaaraj et al., 2018).

Developing countries budgets are largely financed by taxation, while the least developed nations budgets are highly financed by foreign assistance (Mascagni, Moore & McCuskey, 2014).As the roles of government increases, the government has to mobilize more taxes to fund its operations ,one of the hindrance to collect the expected tax revenue is tax noncompliance. Castro and Rizzo, (2014) suggested that compliance to tax laws is a problem which has existed since the inception of taxation. Tax noncompliance is a big concern globally in both less developed and developed countries (Alm,Clark & Liebel 2016). Tax law compliance means accurate reporting of one tax obligations. As per James and Back road, (2014) even though the tax laws are not difficult, it is hard to persuade tax payers to obey the tax laws, due to this it has led compliance to be a major challenge to many tax authorities. Conforming to tax laws remains a big challenge in most developing countries as a result tax authorities are looking for ways to improve tax collection so as to reduce their budget gaps (Maseko, 2013).

According to Fjeldstad (2016) some of the factors contributing to low Turnover Tax Compliance in many developing states are, high tax tariffs, inadequate information and accounting system, fragile regulatory, corruption, attitude, large informal sectors and vagueness in the tax laws. Due to increase of government projects and economic downturn all over the world, most of the governments are gearing towards enhancing Turnover Tax Compliance (Jimenez and Iyer, 2016). In comparison to the GDP (gross domestic product) of many countries, tax compliance is a big problem all over the world and especially in many developing countries, even though the GDP has been increasing over the years.

In 2011, globally it costed governments about 5.1 % of their Gross Domestic Product (GDP). In Europe tax noncompliance costed the governments around 8% of their GDP. Tax noncompliance costed 10% and 2% of GDP to the North and South America economies respectively. East Africa economies (Uganda, Tanzania and Kenya) tax noncompliance was high being compared to GDP in 2011. Uganda had minimal sum evaded taxes compared to other East Africa countries it lost USD 856 million, Tanzania was at USD 1.9 billion; Kenya lost more than USD 2 billion USD. Rile (2011)

argued that, tax noncompliance has adverse effects in revenue mobilization even in most developed economies in the world

Countries in the sub-Saharan Africa experiences high budget deficits due to insufficient revenue, these deficits lead to undesirable microeconomic among them high private investment by private sectors and high inflation. In order to curb the budget deficits control over government and enhancing revenue collection is required to achieve their annual budget targets, they must operate within the revenue estimates. According to Pfister, (2009) governments need suitable tax systems with capability of expanding tax base this will go hand in hand with improving compliance and in turn enhance tax revenue collection. According to Loeprick & Engelschalk, (2011) MSMEs have emerged as the unexploited potential to address tax deficits in many economies around the world.

1.1.2. Kenyan perspective

Tax is the principal source of the national government revenue in Kenya, it is the government responsibility to fund the public services and hence taxation plays a crucial role. Administration and collection of taxes in Kenya is entrusted and carried out by the Kenya Revenue Authority (Kuria, Ngumi & Rugami, 2013). According to Tanui (2016) KRA is the only institution mandated by the government to collect taxes on its behalf from all registered taxpayers, to achieve this it has divided its operations into regions like Western, North Region, Rift Valley, Central and Southern. As to Mutua (2012) compared to other East African countries which finances sizable part of their budget from foreign aid, Kenyan budget is majorly funded from internally generated revenue. Following the endorsement of the current constitution in 2010, the current system reflects a two level course of government, central and county governments where some economic power and commitments are delegated to the regional governments by the central government. The powers to impose taxes or raise revenue in Kenya is enshrined in Article 209 of the Kenyan constitution 2010.

The main tax divisions in Kenya are (1) Direct taxes that are paid straight to the government as income examples; corporate tax, personal income tax, capital gains tax. (2) Indirect taxes, these are taxes where impact and incidence of tax are borne by different person's examples are VAT taxes, sales taxes and excise tax. Kenyan taxpayers are classified as large, medium or small this is according to the level of their business income. Regardless of one's grouping, taxpayers are obligated to be compliant with PAYE, Income Tax, Excise duties, Customs duties and VAT in equal measure. The tax filing process in Kenya is automated and done through Itax system.

In 1986 Kenya introduced Tax Modernization Programme, the aim was to enhance revenue collection, reduce noncompliance level, improve tax administration and reduce collection cost.As per Wanjiru (2010) tax reform turn out to

be part of the Structural Adjustment Programmes (SAPs) which were integrated in the economic streamlining agreement between International Financial Institutions and the Kenyan government.

In Kenya, and other developing countries, MSMEs are regarded as the key drivers of social and development and are considered to be the most important part in revenue mobilization to the government through taxation.According to Thananga, Wanyoike & Wagoki,(2013) KRA efforts to finance the high budget are yet to bear fruits as a result the government is targeting sectors like MSMEs and rental income that have remained untaxed. Lately the government have reintroduced capital gain tax while selling asset and introducing turnover and presumptive tax for Micro Small and Medium enterprises as way of enhancing tax revenue.

1.1.3 Determinant of turnover tax compliance

Taxpayer's awareness is the amount of knowledge and understanding of the tax payer to tax the tax rules and regulation. In Nigeria, the MSMEs do not differentiate county taxes from the national taxes. By paying taxes due to the county council, they assume that they have contributed all the taxes that they have (Oladipupo, 2016). The grey areas in the taxpayer awareness include, the type of tax they should file, the frequency of payment, timelines, the consequences of failure, importance of book keeping and the justification of payment (Ndaka, 2017). This presents a problem for both the tax authority and also the taxpayer. In a situation whereby a taxpayer has registered for the wrong tax, for instance registering for a turnover tax with a turnover of more than Ksh. 5 million, it becomes unpredictable for the tax authority (Onchwati, 2017). This also means a conflict between the taxpayer and the Kenya Revenue Authority in the event of failure to comply.

A landmark effort at enforcing tax registration is the development of the itax online portal where tax services such as filing of returns, registration et cetera is done closer to the user (Musyoka, 2019). The intensified call for contribution of taxes has also been matched with the development of service centers (Huduma centers) where potential and active taxpayers visit to update their tax compliance status. In addition, the government has enforced the requirement for all students joining colleges to register with the Kenya Revenue Authority through the itax portal in order to benefit from key services like higher education loans (KRA, 2018). Other services such as the last mile electricity connections as well as bank account opening for public and private limited companies require personal KRA Pin Certificates (Musyoka, 2019).

In a bid to loop in the small traders, The Kenya Revenue Authority has attempted to enforce both the presumptive as well as the turnover tax albeit small successes (Roedl, 2018). The authority has been particularly wary of the blatant ETR fraud, lack of taxpayer registration, fictitious input of VAT

claims as well as administrative challenges (Wasilwa, 2019). The mere presence of such challenges point to a problem in tax compliance of which it is a reality at the Kenyan tax authority's level. This begs the questions as to what exactly frustrates enforcement of the tax laws in Kenya. Is it the approach, laxity or it is just a universal plague in tax administration?

The cost of compliance involves all the costs that go into the preparation of taxes to actual payment. Taxpayers have the option to do self-assessment and computation of taxes or engage tax experts (Roedl, 2018). For small scale taxpayers, it is easier to trace the sales revenue and pay the requisite tax proportion as well as reading off the value of business permit and taking its percentage as taxes. However, as the business become more complex and require compliance on its part as well as the involved employees, it calls for the engagement of tax experts (Shome, 2018). These experts will do the computation and present an advice that must match the expectations of the tax authorities should the authority undertake its own independent computation.

Tax compliance becomes an issue when the engaged experts attempt to help the taxpayer evade taxation at a discount. This is particularly common in large businesses that file for turnover taxes when their revenues qualify them for corporate taxes in order to pay the lesser tax (Onchwati, 2017). The cost of restoring compliance will then increase for the tax payer when discovered. If the misrepresentation remains concealed, then it becomes a cost on the part of the revenue authority as forfeited income. Sometimes, failure to comply is as a result of lapse in the tax collection and audit system. For instance, the tax remittances that are associated with professional services that do not attract Pay as You Earn form of tax (Onchwati, 2017). Since the professionals are expected to compute and file returns on quarterly basis, the concerned taxpayer may not faithfully keep an account of all incomes in the subject period.

1.1.4 Compliance of turnover tax in Kenya

Tax compliance can be well-described by considering three distinctive types of compliance which are; reporting, filing and payment compliance (Mazur and Brown ,2003). While the small traders' inclusion in the tax was considered a shot in the arm, only 31% of the MSMEs in Gikomba market had complied by the end of 2011 as a result of inability to compute tax liabilities. This cast an unsatisfactory response in the entire small traders in the republic. A yearly performance shows that in the year 2008/09, the number of registered MSMEs for Turnover Tax was 10,605 against a target of 18,347 (Mwangi, Gachoka & Siagi, 2010).

Karanja (2018) explored the challenges that accompany the collection and administration of turnover tax in Kenya. The research unearthed challenges of resources in the administration of the turnover taxes and recommended tougher penalties for non-compliance. Wasilwa (2019)

proposed a more indirect method in which the Kenya Revenue Authority could subtly encourage compliance by encouraging registration, prompt settlement of tax due and filing of returns.

1.1.5 Micro small and medium enterprises (MSMEs)

Globally there is no general accepted definition for Micro, Small and Medium-Sized Enterprises (MSMEs). However, some attributes namely; turnover, capital and number of employees are used in defining MSMEs. In Kenya, as per the Micro and Small Enterprise Act of 2012, micro and small enterprises (MSEs) or micro, small and medium enterprises (MSMEs), refers to a firm in trade, service industry or business venture, micro enterprises employ less than 10 people and have maximum yearly turnover of Kes 500,000. The enterprise capital registered is below Kes 5 million in the manufacturing and below Kes 10 million in the service and farming sectors. Small enterprises have yearly gross sales of between Kes 500,000 and Kenya shillings 5 million and employ 10-50 people. The capital registered of the firms is between Kes 5 million and Kes 25 Million in the farming and service sectors.

Micro, Small and Medium Enterprises (MSMEs) have been recognized by development agencies, multilateral organizations, and Governments all over the world as a basic element of development and economic growth and development. In developed countries MSMEs characterize a fundamental pillar of their economy and play a major role in driving innovation, creating sectoral competitiveness and creation of wealth.

In Kenya the Micro and Small Enterprises were recognized by the government by forming Micro and Small Enterprise Authority (MSEA) under the Micro and Small Enterprise Act No. 55 of 2012. to articulate and coordinate guidelines that will enable the assimilation and synchronization of several private and public sector initiatives, for the elevation, progress and regulation of the MSMEs to become key upcoming industries.

Globally, MSMEs are estimated to have contributed 50 percent of total employment. In Africa, micro, small, and medium enterprises are estimated to contribute more than 70 percent of the Africans employment. As per Daily news (2019) (MSME), is contributing around 85% of employment and 25% to GDP, making it the fastest growing sector among the East Africa Community (EAC).

In Kenya as per, MSME Baseline Survey (2016) informed that, MSMEs created employment of about 6.3 Million for licensed MSMEs and 3.1 Million for unlicensed MSMEs. The worth of the MSME's output is appraised to be Kes 3.371 Billion against a national yield of Kes 9.971 billion representing an input of 33% in 2015. It further stated that MSMEs cover a range of institutions nearly in every sector of the economy; they function formally or informally. The survey concluded that, the high influence of the MSMEs

sector underlines the essential part played by the MSMEs in the economic growth.

Ouma et al, (2009) informed that over 60% of citizens employed in MSMEs are youth and are between 18 to 35 years. The words MSMEs, informal sector and Juakali are used interchangeably in Kenya.

MSMEs in Roysambu area ranges from Autospares retailers, supermarkets, barbershops, garages, Salons, restaurants, Bars, wholesalers, chemists among others. These MSMEs are the main contributors and support economy of Roysambu as they create employment and most people livelihoods depends on these businesses. Most SMES do not register their operations with the National government and the county government (Ndemo 2015).In 2017/2018, the resilience of the economy was accredited by resilience of MSMEs(CBK 2018).Therefore, a study on factors affecting Turnover Tax Compliance by MSMEs in Roysambu area in Nairobi is important.

1.2. Statement of the problem

In order for government to deliver services which are not provided for by private sectors it requires a major investment. This is expected to be funded by taxes, however majority of the taxpayers are unwilling to honor their tax obligation (Bandpey, Ahangar, & Ronky, 2011).

Like many other developing countries Kenya faces challenges in raising tax revenue. As per the OECD (2019), Kenya tax revenue percentage to GDP in 2017 was 18.2%.

Since 2001 Kenya's tax to GDP ratio was highest in 2014 with a value of 19.3% while the lowest was in 2002 at 16.1%. This is an indication that Kenya is yet to exploit its full potential in tax revenue collections. According to Masinde and Makau, (2010) Kenya government has embarked on numerous revenue administration improvements aimed at enhancing tax mobilization. Griffiths (2005) informed that Kenyan government has to condense tax circumvention in the informal sector for it to increase its social spending. Cobham (2005) observed that constant low tax collection level is injurious to economic progress of this country. Lumumba,et al,(2010) informed that MSMEs generate a lot of money which go untaxed, statistics show that small traders in Kenya create the hard-to-tax taxpayers. According to IEA (2012) there is a sizable number of untaxed businesses and hence KRA can expand its tax base to increase tax revenue.

Pounding small level of compliance can cause the country failure to realize targets for funding the country's expenditure. Save this is well addressed it may give rise to a nationwide disaster (Flynn, 2003). MSMEs are genuine supporters of budgetary improvement and business creation all over the world (Fariza, 2012). Tanui, (2016) informed that taxation of the informal sectors like SMEs is still a challenge in Kenya.

According to (MSME Baseline Survey 2016) it is estimated that the sector employed 93% of the working population. Further, 75% for formal establishments in Kenya are MSMEs, and that there were nearly 1.56 million licensed Micro Small and Medium Enterprises.5.85 million MSMEs were unlicensed. Nairobi has 268,100 registered and 782,500 unregistered MSMEs. The survey further informed that majority of licensed and unlicensed MSMEs are in county of Nairobi, Nakuru second and Kakamega in third place. From the survey it is clear that there are more unlicensed business than licensed MSMEs in Kenya meaning that KRA is yet to bring all MSMEs on board. To reach these untaxed populations the government introduced Turnover Tax to bring them on board. There is thus a need for research to assess whether these efforts are gaining fruits in enhancing tax collection.

The factors affecting Turnover Tax Compliance among MSMEs is not well researched and studies have not been done in Roysambu area in Nairobi county and therefore examining economic determinants, social psychological determinants and political determinants that affect Turnover Tax Compliance behavior among the micro, small and medium enterprises (MSMES) in Roysambu will be the main objective of this study.

1.3 Research objectives

1.3.1. General objective

The main objective of the study was to analyze the factors affecting Turnover Tax Compliance in micro, small and medium enterprises sector in Roysambu area in Nairobi.

1.3.2. Specific objectives;

The research was guided by the following specific objectives;

i. To determine the effects of economic factors on Turnover Tax Compliance among MSMEs in Roysambu area.
ii. To establish the effects of political factors on Turnover Tax Compliance among MSMEs in Roysambu area.
iii. To determine the effects of psychological factors on Turnover Tax Compliance among MSMEs in Roysambu area.

1.4 Research hypothesis

The research will be guided by testing the following hypothesis;

- Ho_1 Economic factors does not influence Turnover Tax Compliance of MSMEs in Roysambu area.
- Ho_2 Political factors does not influence Turnover Tax Compliance of MSMEs in Roysambu area
- Ho_3 Psychological factors do not influence Turnover Tax Compliance among MSMEs in Roysambu area.

1.5 Scope of the study

The study focused on the business owners. Geographically, the study focused on the MSMEs in Roysambu in Nairobi County. The primary reason for selecting Roysambu was based on the idea that it is an urban set-up with a population that is knowledgeable on tax requirements and with residents

of different cultural backgrounds. Besides, the location has many businesses which form the populace for the study. They are characterized by a variety of Autospare shops, shopping malls, whole sellers, bars and restaurants, groceries, salon and hair dressing, barber shops, garage, supermarkets, workshops, guest houses and tailoring. Other reasons for selecting the area were the proximity, time and costs. Proximity applies in the sense that the area is close to the researcher's residence and place of study. Hence it was possible to save time and cost.

1.6 Significance of the study

The study established the factors affecting Turnover Tax Compliance among Micro Small and Medium Enterprises (MSMEs) in Kenya a case study of Roysambu area. The study would be of great help to the following group:

1.6.1. The government of Kenya

Compliance to tax laws yields high revenue to the government to fund its social amenities, for government to achieve its vision 2030 tax collection and its sustainability is recognized as its most important thing. The study pursues to enlarge knowledge and literature on the determinants of Turnover Tax Compliance. Thus the finding of this research will contribute to lasting solution of non-compliance with tax laws in Kenya, this will help Kenya Revenue Authority to meet or reduce the tax revenue collection target gap.

1.6.2. Policy Makers

A well understanding of the factors affecting Turnover Tax Compliance among Micro Small and Medium enterprises MSMEs can help policymakers to design guidelines that encourage the culture of Turnover Tax Compliance and enhance tax mobilization in Kenya and also come up with strategies that inspire MSMEs growth.

The study will offer insights to the policy makers on the factors to consider while making laws to ensure tax noncompliance level is reduced to minimum levels, this will also go hand in hand in coming up with efficient and effective tax collection policies and systems.

1.6.3. The MSMEs

The study will help the taxpayers to know what they are supposed to do for them to comply, also help them to know what await them if they don't comply. This will help them to improve and how to relate with KRA for them to benefit with free trainings and materials on the emerging tax issues. Also this will go hand in hand in demystifying taxation in Kenya and make them more compliant.

1.6.4. The future researcher

Turnover Tax Compliance among the Micro Small and Medium enterprises have been viewed as a complex subject. Due to this perception there is a huge information gaps. The outcomes of this research will offer crucial information for more research in this area of study and also contribute to the theoretical, and empirical thus it will reinforce the already existing literature on Turnover Tax Compliance. The future researchers will be able to pick the uncovered areas in this study and do more researches on areas not

2.LITERATURE REVIEW

2.1 Introduction

This chapter analyses related literature to this study, and elaborate theories that are related to Turnover Tax Compliance. It also focuses on the past studies, related articles and publications about the variables under study that aims at exposing existing gaps. It also covers conceptual frame work and operationalization of variables used.

2.2 Concept of Turnover Tax Compliance

Many scholars have defined tax compliance in various ways, Saad, Ayuba, and Ariffin,(2016) described tax compliance as adherence of citizens to laid tax laws and principles which are put in place by their government Chebusit (2014) suggested that several countries across the globe have been putting in place measures like tax audit, fines, penalties etc. so as to enhance tax compliance, however newly studies have found that despite all those measures and reforms tax compliance is still low.

Tax compliance is a universal concern since many nations would like to finance their budgets through locally mobilized revenues. Slemrod, (2015) described tax income as bread and butter for national and local governments. Kenya and other developing countries relies heavily on tax to finance its budget.

Mascagni, Moore and McCluske, (2014) stated that developing countries finance their budget with tax revenue while least developed nations depends on foreign aids. A competent and a well-functioning tax system is the foundation for any nation to its development (Kleven et al. 2016).The main reason for taxation is to generate sufficient income for government spending without borrowing Moyi & Ronge, (2006). Compliance to tax laws is overall enhanced by inducing trust instead of coercive measures (Lisi 2014), Doerrenberg, (2015) suggested that tax compliance is alleged to be high when tax revenue is utilized on charity, rather than given to government.   According to Rasul & Rincke ,Dwenger, Kleven,(2016) developed nations in North America, Europe and Asia are publishing compliance status of both in individual and business as a way of boosting societal morale on tax compliance. The Kenyan government has implemented many tax reforms intended to enhance revenue collection (Masinde &Makau, 2010). Owing to the great significance of tax income tax authorities in most nations commonly put more efforts in enhancing Turnover Tax Compliance and dealing with non-compliance behavior. The requisite to appreciate the factors affecting tax compliance remains a major concern to the tax administrators.

2.2.1 Turnover Tax in Kenya

In Kenya, Turnover tax is applicable to the groups of businesses whose turnover is expected to be less than 5 million Kenya shillings. This tax is having its roots on the Finance Act

2007 in which the provision of the Income Tax Act, Cap 470, under section 12c allows the government to operationalize it. Ouma et al (2007) explained that the turnover tax, targets the small traders which comprises of the micro and small businesses. These businesses are largely unregistered and mostly employ labor as the primary means of production i.e. labor-intensive production functions.

In the year 2018, the Finance Act 2018 introduced the Presumptive Tax to replace the 2007 turnover tax. This legislation was to be officially operational on 1st January 2019. Less than a year later, the turnover tax was reintroduced through the Finance Act 2019 in a bid to improve tax compliance among MSMEs. Consequently, the government lowered the threshold of the presumptive tax to Ksh. 500,000 while maintaining the turnover tax for any sales exceeding Ksh. 500,000 up to Ksh. 5 million (Karanja, 2018). The turnover tax is a monthly 3% contribution of the gross turnover. The combination of the presumptive tax and the turnover tax is touted as the best step towards tax compliance by the small traders.

As an affirmative action, turnover tax was meant to include the small traders in the national tax regime. However, the expectation has not been met as the target revenue of Ksh. 2.4 billion could not be raised. When this target is compared to the actual revenue of Kshs. 221 million, it raises concerns.

2.3 Theoretical Literature Review

The study explores the economic theory, social influence behavior theory and theory of planned behavior as the essential theories of the study.

2.3.1 Economic Theory of Tax Compliance

The theory is understood to have started from and crafted by Allingham and Sandmo (1972) and Srinivasan (1973) it was centered on economic of crime models. The models place Tax Compliance as an element of three hindrance variable; likelihood of detection, tax rate and tax audit, it set the establishment for understanding the Tax Compliance behavior.

As indicated by Alm, Jackson, &McKee, (1992), in the model, the taxpayer is presumed to have an income I and should pick the sum of income to declare to the revenue authority (McKee, 1992). Declared pay D is charged at the rate t; undeclared income isn't charged; the likelihood of the taxpayer being detected is p. The tax payer will be charged a fine f for being deceitful. The taxpayer has to make two decisions between: (1) He may state his actual pay or (2) he may declare not as much as his actual income.

This approach and its augmentations depends on the supposition that an individual covers government expenses simply because of the monetary outcomes of the avoidance and on the grounds that they fear being detected and punished. Hence, as per this theory charging penalties for tax noncompliance and increased audits would increase and enhance tax compliance.

Different researchers (Alm, 1999; Alm, Jackson, and McKee, 1992; Torgler, 2002) condemned it for excluding the psychological and sociological variables that have the "inherent inspiration" of the tax payer compliance without enforcement. According to Alm, (2012) the proportion of tax returns that are audited is usually relatively small in many tax jurisdiction, nearly or less than 1% of all returns.

2.3.2 Social Influence Behavior Theory

As proposed by Kelman (1958), an individual's beliefs, attitudes, and succeeding actions or conducts are influenced by others through three processes: when the person accept the influence and adopt influenced behavior to gain rewards, when a person adopt the influenced behavior to maintain a preferred and beneficial relationship to another person and when a person accept influence after perceiving the influenced behavior is rewarding.

As per the theory, compliance conduct and attitudes towards the assessment framework are believed to be influenced by the behavior and social standards of a person's reference group. Atawodi and Ojeka, (2012) informed that, the social impact theory suggests that people are swayed to conform to their tax commitment by psychological factors. The theory centers on the taxpayer's ethics and morals and proposes that citizens may conform even when the likelihood of being detected is small. Tax compliance factors from a public stance identified with taxpayer's tendency to adjust with tax guidelines in retort to numerous other well-known behavior and the circumstance of their locale (the bearing, partners and family level individuals) (Torgler, 2007).

This theory additionally proposes that there are three principle effects that are connected with the individual reason to perform. These components are; an individual's disposition toward the conduct being referred to, societal variables and obvious conduct control. Social models are the manner by which humanity impacts an individual's conduct.

2.3.3 Theory of Planned Behavior

The Hypothesis of planned behavior was proposed by Ajzen (1985) as an augmentation of the Theory of Reasoned Action, which had been suggested a decade ago, by (Fishbein and Ajzen, 1975). The theory was anticipated to explicate behaviors over which human being have control of. The model entails behavioral intentions which are swayed by the attitude about the likelihood that the behavior will have the likely result and the subjective assessment of the risks and benefits of that outcome.

The assumption of Theory is that there is one basis of behavior, which is referred as the individual's intention to do or not to do. This intent itself is regarded to be determined; subjective norms, attitude and subjective control to a specific behavior. Precisely, the Theory tries to give an account of how a behavior can be predicted by subjective norms, attitude intentions and subjective control.

2.4 Empirical literature review

Many research on Turnover Tax Compliance have been done by previous researchers, this segment will feature their discoveries by gathering them into three expansive categories which are viewed as determinants of Turnover Tax Compliance. Tax compliance literature features four main findings; tax noncompliance increases with increase in tax rate, tax noncompliance decreases with increase in fines, the tax noncompliance decreases with an increase in audit rate, the effect of income on tax noncompliance is ambiguous Pukelienė & Kažemekaitytė (2016).

2.4.1. Economic factors

Loo (2006) referred economic components relating to Turnover Tax Compliance to activities which are related with cost and gains in doing the act. According to Smithian concept of homo economics, people are self-centered, rational and utility maximizers who, go for the optimal strategy, so as to avoid taxes as a mean of attaining favorable gains. Jie Ma (2017) Suggested that economic factors (possibility of detection and tax rates) have significant impacts on Turnover Tax Compliance in both developed and developing countries. Economic factors can affect individuals Turnover Tax Compliance behavior in various ways; an individual might minimize their tax liability if they perceive the amount of tax is high or they might opt to understate their income if they are not detected. The Turnover Tax Compliance determinants related with economic factors such as tax rates, income level, tax audits and fines and penalties are explored in more detail.

Shahroodi, (2010) informed that for an effective tax system, the tax procedure should be developed in a way that the rates of tax are suitable and sensible, this will be achieved where the exemptions amount is low, the government tax mobilization agencies are more effective, the tax obligation of the citizens is lower and the war on fighting public funds theft and tax avoidance should be more intense. Atawodi & Ojeka (2012) highlighted that high rates of tax are the main problem of all traders, despite MSMEs facing other tax issues, tax noncompliance is mostly occasioned by high tax rates and this makes them to remain in informal sector. Kasipillai and Sapiei (2013) informed that rate of tax and penalties define the financial value of complying to tax laws, this occasions the taxpayer's compliance behavior, here taxpayer evaluate the cost incurred for being a non-compliant, fines incurred for non-complying and gains of evading paying taxes. From the evaluation the taxpayer will not pay the his or her tax obligations if the gains of non-complying are more than the costs.

Notwithstanding the fact that the impact of tax rate on compliance is mixed, many researchers found that the high tax noncompliance is occasioned by high tax rates (Hai and See, 2011). Several studies done in developed countries found that negative attitudes towards compliance to tax laws is occasioned by tax rates increase (Torgler & Murphy ,2004) and (Tax Foundation 2006,2007). Negative association

between rate of tax and Turnover Tax Compliance was established in developing countries as per several studies (Jayawardane 2016),(Abubakari & Christopher ,2013) and (Helhel & Ahmed ,2014). However, Bandara1 & Weerasooriya (2019) found insignificant positive correlation between Turnover Tax Compliance and tax rate in Sirilanka.

In a current report in an African nation, the discoveries demonstrate that tax rate don't have any impact on Tax Compliance (Eragbhe ,Modugu & Izedonmi, 2012). According to Richardson, (2006) cross-country examination of determinants of tax avoidance universally led with the OECD nations confirmations demonstrated that there is immaterial connection between rate of tax and tax avoidance.

Asela Gamini & Weerasooriya (2019) informed that there is negative relationship between Tax Compliance level and tax rate.Kirchler (2008) found that tax rate has negligible impact on Turnover Tax Compliance. Atawodi & Ojeka (2012) in their study in Nigeria to examine factors that promotes noncompliance with tax obligation among SMEs found that high tax rates and complexity of procedures for filing tax returns are critical factors triggering noncompliance among SMEs. Majiwa (2016) while studying determinants of Turnover Tax Compliance behavior in Nairobi County found that tax rates, positively impacted on the Turnover Tax Compliance level among individual tax payers but had a negative influence on Turnover Tax Compliance level among corporate tax payers. Conversely Aondo (2018) established a significant and positive association between Tax Compliance and tax rates among SMEs in Naivasha.

Torgler & Murphy (2004) informed that the effects of tax rate on Tax Compliance are difficulty to access theoretically as the findings are usually correlated to other determinants. Freire-Serén and Panadés (2013) recommended that, since literature on economic factors on the impact of tax rate and Turnover Tax Compliance is not definitive because of mixed discoveries by different researchers, the area need more examinations.

Sanctions or Penalties are measures in the form of punishment to citizen who infringe the laws. Fines and penalties are likely to be substituted with each other because of their multiplicative linkages but that assertion would only be possible by ensuring none of them is zero (Kirchler et al 2007). Penalties and fines are believed to be essential so that laws and regulations are adhered to (Arum, 2012). Purnamasari et al., (2018) pointed indicators used to measure tax penalties as ;(a) Awarding penalties that are rational (b) impose penalties to enlighten tax payers (c)tax penalties to violators (d)Imposed penalties can be negotiated. Higher fines basically make avoiding taxes progressively risky for taxpayers and ought to discourage them from avoiding tax. Experimentally, the obstacle bearing of fines couldn't generally be supported.

The preventive part of tax penalties lies for the most part in deterrence (Wenzel, 2004; OECD, 2010; Majka, 2010). Certainty of tax payer detection and being punished is prerequisite for taxpayer education (Frey and Feld, 2002; Torgler, 2007). "Settling tax obligation is a correct activity", "citizens are straight forward – just those few resistant are punished". Such standards firmly persuade taxpayers, particularly individuals and small companies, to be compliant (Torgler, 2007; Poppelwell et al., 2012). According to Majka (2010) tax penalties, in contrast to criminal punishments, ought not go for suppression. Tax punishments ought not to be forced for income generation purposes (Debowska & Romanowska, 2008).

The observed impacts will be more fragile than projected and a few analyses even informed that addition of penalties can have negative impact leading to more evasion (Kirchler et al 2007). Penalties have a positive influence on taxpayers on awareness on Turnover Tax Compliance (Lalo et al.2019). Penalties had a significant positive influence on Turnover Tax Compliance in Nigeria Anyaduba & Oboh (2019). Jemberie (2020) found that fines and penalties by the government have significant impact on Turnover Tax Compliance in Ethiopia. Kamil (2015) found that imposing penalties had a positive relationship to taxpayer Tax Compliance attitude, high tax compliance was occasioned by the effectiveness of the tax penalties applied.

Majiwa (2016) found that enforcement instruments like fine and penalties had both negative and positive impact on Turnover Tax Compliance in Nairobi, they had a positive impact on individual tax payers but negative impact on corporate tax payers. According to Mwaura (2019) a study in Thika Kenya suggested that unswerving application of tax penalties increases Turnover Tax Compliance. He also established that by having harsh tax penalties for not paying taxes on time enforce Turnover Tax Compliance. Keraro (2017) found that fines and penalties had significant effect on Turnover Tax Compliance among SMEs in Nakuru.

Tax audit is an enquiry intended to assess whether there are tax related frauds or intended default or neglect committed by tax payer so as to get material proof for possible trial of the offender (Adams, C. 2001). Rates of audits rates and keenness of the audit exercise could inspire taxpayers to be more careful in filing, paying   and while making their claims (Palil and Mustapha 2011). Manaye (2018) informed that audits and thoroughness of audits can influence tax payers to be more keen while filing their tax returns and ascertaining their tax amount. Contrary people who have not been audited before may be curious to understate their revenue and make false tax deductions.

Most studies showed that probability of being detected was correlated with Turnover Tax Compliance in developed countries (Devos,2012) and (Trivedi et.,2004);(Bobek,Hageman & Killiher,2013) and (WoodWard & Tan,2015). However small studies indicated that probability of detection does not have significant effect in developed countries (Alm & Torgler 2006),(Torgler and Murphy,2004).In studies done in developing countries there was a significant correlation between probability of detection and Tax Compliance (Pameranz ,2015); (Jayawardane,2016);(Isa and Yusoff ,2014) and (Helhel & Ahmed ,2014).Mohdali et al.(2014) found that threats of audit and penalties significantly affect taxpayer intentions not to comply to tax laws. Slemord et al,. (2001) informed that planned audits are likely to have a correlation with Turnover Tax Compliance than snap audits as they depend on behavior of taxpayers. A tax payer being audited in one period assumes that he/she will not be audited in the subsequent period (Kastlunger, Kirchler, Mittone, & Pitters, 2009).

Annas L et al (2019) informed that the role of tax audit in enhancing Turnover Tax Compliance proved effective. Manaye (2018) found a significant relationship between tax noncompliance behavior and tax deterrence sanctions like probability of audit in Ethiopia. Mwaura (2019) found that probability of business being audited have a great influence on Turnover Tax Compliance Waiganjo (2018) found that tax payer knowledge, withholding tax system, I tax platform, penalties and tax audit have a significant influence on Turnover Tax Compliance. Conversely Gichiku, (2014) found that penalty rates and probability of audit have a negative effect on Turnover Tax Compliance.

2.4.2 Political Factors

Prior findings indicate the political factors as crucial precursors that may affect tax non-compliance attitude (Kareem et al., 2017) (Zafarullah, 2018); (Onakoya and Afintinni, 2016); (Zandi & Elwahi, 2016); (Chiang & Hsu, 2017); (Ayenew, 2016); (Nyarko et al., 2016). Abodher (2016) suggested that political determinants are also crucial while examining determinants of tax noncompliance, as some tax payers make their economic decisions based on their association with certain political parties.

According to Congdon et al.. (2009), tax evasion behavior depends on people's perception on the government and its politics". General public who are in favor of political parties with common democratic ideals will likely comply more than the public voting for liberal parties. Mohd & Ahmad (2011) informed that if citizen will attempt to be non-tax compliance when in their own opinion, the governments spends recklessly without prioritizing on essential goods and services. Alm et al,. (2016) discovered that political connection had a significant negative influence on tax non-filing compliance. Cullen et al. (2018) suggested that when taxpayers are in same political party with the current leader, they are positive on the government spending and they are likely to comply more. He also suggested that when majority of country residents holds a positive view of government, only few people will evade tax. Attoma (2018) highlighted that taxpayer's relationship with

their government shapes behavioral differences in compliance to tax laws, if they have a strong relationship then it will influence the tax payer not to be tax noncompliance.

In Kenya the change of government in 2002 led to increase in tax revenue collections, this was associated by the trust in the new government.

According to Merima, Odd et al (2013) in a study conducted in four African countries; Kenya, Uganda, Tanzanian and South Africa they found that taxpayers who are satisfied with provision of public services like water, roads, health and security were more likely to support the government in honoring their tax liability. Tax payers willingness to pay taxes increases when the government spends more money on public goods (Amina & Kedir 2015). Marco & Climent (2015) highlighted that delivery of public goods increased Turnover Tax Compliance by the property owners in Canada and in USA. Tan S Kiow et al,(2017) found that taxpayers will be motivated to comply as longs as they are getting benefits from their taxes such as provision of social amenities and public services of their choice.

Magiya (2016) highlighted that the urge to access government services or goods like; electricity, roads, good health and schools by taxpayers motivates taxpayers to be tax compliant.

In his regression analysis Waiganjo (2018) highlighted that non KRA related factors do not significantly impact Turnover Tax Compliance. Kasper, Kogler & Kirchler, (2015) described tax laws as administrative measures developed by a country to charge and collect tax, they are the basis of taxing both individuals and organization.

Fochmann & Kroll,(2016) suggested that people are ready and likely to honor and observe the laid down tax laws when the tax administrators make fair laws. Amina & Kedir (2015), highlighted that tax system should be modest as possible due to the diverse backgrounds of tax payers with diverse culture, tax knowledge and level of education. Mehari, Daniel and Pasha, (2017) informed that tax laws and their implementation have a positive impact on voluntary Turnover Tax Compliance behavior.

McKerchar (2005), in his study on tax agent found that the ever increasing complexity of the tax laws had a negative effect on tax agents. Additional, he suggested that the tax agents wanted a much simple tax laws. A study on the legitimacy beliefs, procedural justice perceptions and compliance with the law by Walters and Bolger (2018) in Canada where procedural justice was applied in correlation to legitimacy of Turnover Tax Compliance behavior showed that procedural justice perceptions seemed to predict Turnover Tax Compliance. De neve et,al., (2020) found that simplifying communication by the tax authority constantly reduce tax noncompliance, simplification enhance timely payment of tax and make taxpayers who don't file and pay their tax on time comply more expeditiously than they would otherwise.

Gachiku (2015) highlighted that tax Acts which are written in legal language are intricate for people to understand and given several adjustments every year, people lack necessary knowledge to file their tax returns thus high tax noncompliance.

Trust is based on the belief that government is using the tax payer's money in the most prudent manner (Birskyte 2014). Koumpias, Leonardo & Vazquez (2020) in their empirical study of 92 countries for the period between 1981 to 2014 found that Turnover Tax Compliance is influenced by taxpayers trust in government and particularly output side of government, the government entities which taxpayers are more likely to interact.

Birskyte (2014) highlighted that, increased trust in government led to an increase in tax compliance due to the increased motivation on the part of the tax payers. Newman, Mutema, Mhaka & Wadesango (2018) highlighted that SMEs compliance to tax is affected by speculations of corruption within the government on the use of tax collected and thus raises a negative attitude towards Turnover Tax Compliance. Low level of transparency and accountability by the government on uses of public resources lead to mistrust of the tax system, misappropriation of tax revenue by the entrusted government officials negatively affects taxpayer's morale and thus increasing tax noncompliance (Aondo 2018).

Pukelienė & Kažemekaitytė (2016) found that trust had a positive impact on Turnover Tax Compliance, further they highlighted that an increase in trust can provide great platform on management of tax noncompliance behavior. According to Faizal et al (2017) tax payers believed that Turnover Tax Compliance would be increased if they had trust in the government.

2.4.3 Psychological factors

Many researchers who examined conduct of tax compliance suggest that psychological factors are equally important factors to study in the quest to determine the tax compliance behavior. They can be categorized as; social norms, attitude and perceived fairness on tax system.

According to Kirchler, (2007), norms are behavioral standards set at social reference groups, personal and collective level. He classified norms into three levels; the individual or personal level, the social level and the national level. Individual level are adopted standards on behaviours they include; ethical reasoning, authoritarianism, self-centeredness, norm dependency and values. Trivedi et al., (2003) informed that there is an overlap between tax ethics and personal norms the more developed ethical reasoning or tax ethics, the high likely Turnover Tax Compliance.

According to (Prinz, Muehlbacher, & Kirchler 2014) compliance to tax laws is also influenced by behavior and social norms of other tax payers besides other measures. The effect of social norms which can be incurred through social interactions like shame, guilt and loss of reputation has been

studied by various researchers (Cagno,Casagrande, Spallone, & Pandimiglio, 2015).

Tax Compliance behavior results in different jurisdiction highlighted the significance of shared norms, as pointed out by the studies (Alm, Martinez-Vazquez, and Schneider 2004), (Chan, Troutman, and O'Bryan 2000) ; (Alm & Torgler 2006): (Gërxhani 2004);(Schram and Gërxhani 2006);(Schneider 2004) and (Schneider and Torgler 2007).

Social appreciation can be perfect way to enhance compliance as it uses already existing firm, desire to be seen positively by one's peer group to exert social pressure to encourage Turnover Tax Compliance Ahmed et al,. (2012). He argued that for this to work taxpayer must appreciate Turnover Tax Compliance and must be aware of their peer's business activities and able to access how much their neighbors should be paying.

Treating people equally in equal setting in equal way is the initial requirement of equity or fairness (James 2000). According to Richardson (2006),the taxation system should be designed to ensure equity or fairness to all the tax payers through all the three dimensions namely, vertical equity, horizontal equity and Exchange Equity. Saad (2012) suggested that vertical fairness is achieved though taxing the tax payers different tax rates depending on the nature of their businesses. Horizontal treats tax payers the same whether small or large (Mukasa 2014). According to Torgler (2005) when tax payers are provided with adequate information on tax laws and also consulted when tax laws are being developed and how tax revenues should be utilized then they would feel fairly treated. Taxpayers can view the tax system as prejudicial if they consider what they are paying in terms of taxes is more than what they are getting from government in terms of services offered by the government (Chau and Leung, 2009). For the government to accelerate progress in Tax Compliance tax authorities should be keen and convince those who may not perceive fairness in government (Gupta 2017).

Most studies showed positive correlations between Turnover Tax Compliance attitude and fairness in developed countries Hungry (Pantyal et al.,2016), Newzealand (Woodward & Tan 2015) and Germany (Hennighausen & Hennighausen 2015). Besley et al .(2014) found that in UK taxpayers were not willing to pay tax because it was not based on ability to pay and hence they regarded the tax as unfair.

Positive correlation between tax compliance behavior and fairness was found in developing countries Sri Lanka (Joyawardane ,2016); Yemen (Helhel & Admed,2014):,Zimbambwe (Nyamwanza et al.2014) and some African countries (Ali et al.,2014).In his study in Zambambwe (Nyamwanza et al.2014) found that SMEs were not willing to pay as you earn tax as they perceive it as unfair. Friedman (2011) suggested that perceived fairness determines compliance to tax laws.

Manaye (2018) in her study in Ethiopia found that equity and fairness have an insignificant relationship with the tax non-compliance behavior. Amina &Kedir (2015) found that tax compliance and fairness of the tax system demonstrated a positive relationship inferring that having a fair taxation system increase Tax Compliance.

In his study Kircher (2007) suggested that a taxpayer's attitude towards a certain behavior determines the outcome. Thus a positive attitude is likely that the behavior will lead to a highly positive outcome. In his study in Malaysia Saad (2011) informed that attitude towards Turnover Tax Compliance is an essential factor in compliance to tax laws.

Sutrisno , Rosidi & Roekhudin (2019) concluded that taxpayers attitude have positive effect on the behavioral intent for Turnover Tax Compliance. Bandara & Weerasooriya (2019) found a positive correlation between taxpayer's attitude and Turnover Tax Compliance.

As to Lumumba et al. (2010) in his study on taxpayer's attitude among SMEs in Kerugoya Kenya he discovered that lack of understanding in tax law contributed to non-compliance.

According to Kinyua (2014) individual attitude plays a major role on determination of whether Nairobi tax payers will voluntarily be tax compliant or not. The government should therefore educate the tax payers on the importance of paying tax.

2.5 Critique of the Literature

In their study (Lumumba et al., 2010) on taxpayers' attitudes and Tax Compliance behavior of SMEs they found that tax compliance was not influenced by the tax payers' attitude. The conclusion was that tax system was unfair, consequently, the factors that determine tax compliance among SMEs need to be assessed to aid in correction of the economic abnormality.

A study by Aondo (2018) on whether tax knowledge influences Tax Compliance established a positive relationship between the two, also a similar study was done by Oluoch (2018) and EPZ was used as the case study, the results was that tax knowledge influences Turnover Tax Compliance. Though the two studies relate to this study, they were done on different location.

Venter and Cleercq (2007) in their study on impact of taxation on small and medium sized enterprises in South Africa found that the nature of a business and its size determines how the organization manage is tax obligations and thus influencing organization decisions, the study recommended that penalties and interest should be reduced. The study supports other studies by (Brys 2011 and Duanjie et al.,2002) which recommends special treatment of the SMEs. The studies focused on developed economies.

In their study Thiga and Muturi (2015) found that Tax Compliance cost and tax rates are the most important factors that contribute to Tax Compliance. They concluded that tax

rates had the most significant effect on Tax Compliance. The government should therefore increase incentives given to tax payers thus increasing tax compliance. The study ignored other factors that affect Turnover Tax Compliance in MSMEs.

2.6 Research Gap

The study sampled and studied numerous studies on Turnover Tax Compliance as advanced by various authors in both Kenya and other parts of the world e.g. Amina, A., & Saniya K. (2015) explored Turnover Tax Compliance and its factors in Ethiopia, Birhanie, Jemberie (2020) examined determinants of Turnover Tax Compliance in 'Ethiopia. D'Attoma, J. (2018) studied on what explains the North-South divide in Italian Turnover Tax Compliance? B Tran-Nam et al,. (2000) "Turnover Tax Compliance costs in Australia, Atawodi and Ojeka (2012) and Adesina and Obazee (2016) explored Turnover Tax Compliance by small and medium enterprises in Nigeria, Modugu, K.P. and Anyaduba, J.O. (2014) Impact of Tax Audit on Turnover Tax Compliance in Nigeria. Thiga & Muturi (2015), Chepkurui et al,. (2014), focused on small and medium enterprises in numerous locations in Kenya.

From the reviewed studies its evident that most studies have been fixated more on determinants of Tax Compliance among SMEs. This creates an empirical literature gap, which necessitates a study on the determinants of Tax Compliance among MSMEs in Roysambu area in Nairobi in Kenya.

2.7 Chapter Summary

The chapter has reviewed three theories; Economic Theory of Turnover Tax Compliance, Social Influence Behavior Theory and Theory of Planned Behavior. Economic Theory links tax audit and tax rate and how it influences Turnover Tax Compliance. Social Influence Behavior Theory has linked how social norms and attitude influences Turnover Tax Compliance. Planned Behavior theory has linked attitude and how it influences Turnover Tax Compliance. The empirical studies have been studied and some of the areas reviewed were attitude, social norms, fines and penalties complexity of tax laws. Conceptual framework has also been depicted in the chapter. Independent variable are economic factors, political factors and social psychological factors, Turnover Tax Compliance is the dependent variable. From the literature objective of the study has been supported by previous researchers.

2.8 Conceptual Framework Diagram

The study will focus on examining factors affecting Turnover Tax Compliance in MSMEs in Roysambu area in Nairobi. The explanatory variables are Economic factors, Political factors and Psychological factors.

The dependent variable is Turnover Tax Compliance by MSMEs.

See annex table 2.1 The conceptual framework

3.RESEARCH METHODOLOGY

3.1 Introduction

This chapter present the design of the study, the study population, sample size and sample selection procedure, data collection process, model specification and data analysis procedure.

3.2 Research design

Research design can be described as a composition of rules for data collection and analysis of the same in a way that combines relevance with the aim of the research (Kothari 2014). A good research design allows researcher to draw valid interpretations that can advance scientific knowledge. Usable inferences lead to theories that explain occurrence (Plumper 2008).

The research used descriptive and explanatory research design. Descriptive study is used to describe characteristics of a population or phenomenon under study. A descriptive study describes phenomenon of how things are in the population (Saunders et al., 2007). Explanatory research design gives result that are all-inclusive, contextual and relevant to this study.

3.3 Target population

The population of the study comprise micro small and medium enterprise tax payers. This populace is meant to give detailed information that will be pertinent for analysis and interpretation of the data. As per KRA there were 11,501 registered business in Roysambu in 2019. Thus the target population of this study was the 11,501 registered businesses in Roysambu area in Nairobi. The study sample was therefore drawn from this population. This populace was aimed to give comprehensive information that was relevant for analysis and interpretation of the data.

See annexTable 3.1: Target Population

3.4 Sampling techniques

According to Mugenda (2003), a section of the total population is referred to as a sample. A sample is a group of units picked from the universe they represent, for a study Kothari (2004). As per Zikmund (2010), a sampling frame can be defined as a comprehensive list comprising of all names in the universe.

Central limit theorem suggests that if a sample is derived from a normally disseminated data, the mean from samples of such distributions are themselves normally distributed. Where a sample size is very small, the distribution shape majorly resembles the original population's distribution shape. However, as the population gets large (more than 30), the shape of the sampling distribution resembles a normal distribution irrespective of the shape of the original population. Thus in this respect, a sample above thirty respondents was sufficient.

The sample size was obtained using both random and purposive sampling techniques. Yamen (1967) formula was used to calculate the sample size. As per the formula, the assumption is that MSMEs population exhibit a normal

distribution in relation to the study. As per KRA there were 11,501 small traders in Roysambu in 2019.

The sample size was determined by the simplified Yamane formula below;

Where;

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

 n - The sample size
N- The population size
e- The acceptable sampling error
*95 confidence level and p =0.5 are assumed
Source: Yamane (1967)
n= 11,501/1+ (11,501(0.05*0.05) 386

3.5 Sample size

Thompson (2013) defined a sample as some elements drawn from the research population for studying and they represent the whole population of study. A sample selected where the researcher cannot study the whole population. In the case of this research, the researcher sampled 386 Micro and Small Enterprises tax payers in Roysambu area to represent the whole population.

3.6 Data collection, Instruments and Procedure

The study used questionnaires to obtain qualitative and quantitate data.

3.6.1 Questionnaires

Questionnaires were used as the main data collection tool in this study. The questionnaire comprised of structured questions. The researcher delivered the questionnaires personally to all the respondents and thereafter collected them after three weeks thus giving the respondents ample time to respond. The study adopted a five responses Likert scale for matrix questions. Statements or questions framed in the study questioners were directly related to the research questions (Yang 2008). Newing (2011) describes questionnaires as a document containing a list of precise short questions or statements that can either be asked orally by the interviewer, or responded to by the respondents in writing.

3.7 Pilot study

Pilot study can be described as preliminary study carried before the actual study it is done to evaluate feasibility of the study it helps in detecting any unforeseen eventuality during the study. According to Cooper & Schindler, (2008), the study is aimed at establishing the reliability and validity of the instruments used in research. When testing the reliability and validity during pilot testing statistical selection is not a must (Cooper and Schindler 2006). For the pilot study the researcher administered the questionnaire to 40 respondents who were randomly selected from the target population. Reliability and validity of the data were also tested.

3.8 Data Reliability

Reliability is how well a test measures what it should (Tavakol & Dennick, 2011) or the level to which measurements are error free. For this study, Cronbach's alpha coefficient value was computed. Cronbach's alpha, α coefficient has been the subject of considerable methodological and analytical attention (Cortina, 1993). Peterson (1994) used the Cronbach's alpha in analysing consistency in customer satisfaction data from 832 different articles and obtained 75% per cent of the observed alpha coefficients of .70 or greater, 49% were .80 or greater, and 14% were .90 or greater. As per the recommendations of Nunnally (1967), the study aimed to achieve reliability level of between 0.7 for acceptable and α 1 for excellent Cronbach's alpha was subsequently used to evaluate the unidimensionality of a set of scales items and compare the scores obtained, Nunnally (1978) argued that a Cronbach's alpha with value equal or greater than 0.7, proves that the research instrument used is reliable. This study adopted a coeffient of 0.7 as the benchmark for reliability

As Table 3.2 presents, economic factors (α=0.880) was found reliable with the highest Cronbach Alpha coefficients followed by Turnover Tax Compliance (α=0.854) then political factors (α=0.746). psychological factors was also found reliable at a Cronbach Alpha coefficient of (α=0.722).

 See annex Table 3.2: Test of Reliability of Questionnaire

3.8.1 Validity Testing

Mugenda and Mugenda (2003) described validity as the extent to which results obtained mirrors the real scenario that is being researched. Therefore, validity is the extent to which data analysis results represent the phenomenon being studied.

In this case, 40 respondents were used as the reference for the pilot study by the researcher. Moreover, raw data was retrieved from a sample that had been randomly selected and was generalized and assumed to rightly represent the population with a reduced incidence of bias that could put the validity of the study to question. Additionally, the research supervisor also reviewed the questionnaire to ensure it was valid.

3.9 Data Analysis Techniques and Presentation

According to (Mugenda & Mugenda 2003), data must be cleaned, coded and properly analyzed to make it meaningful. The data was summarized, coding done and keyed into the Statistical Package for Social Sciences (SPSS) version 20 for analysis. The analysis included grouping of the responses into various categories. Descriptive statistics such as mode, frequency distribution, percentages and means were used to do data analysis. Inferential statistics such as regression analysis was used for data analysis. To ensure information gathered was understood, the data was presented in form of percentages, frequency tables and correlation tables. Pearson correlation coefficient (r) was calculated to determine the strength of the relationship between the dependent and independent variables.

The following regression analysis was used to determine the relationship between the dependent and independent variables. The study analytical model is depicted by the multiple linear equation given below-

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

Y -Turnover Tax Compliance

β_0- β_3- regression coefficient of independent variables

X1 –Economic factors affecting Turnover Tax Compliance

X2- Political factors affecting Turnover Tax Compliance

X3- Psychological affecting Turnover Tax Compliance

ε – Error term, it takes into account all the possible factors that would possibly influence the dependent variable though not captured in the model.

In order to test the significance of the Multiple regression model, the Analysis of variance (ANOVA) was calculated, the significance of the regression model was determined at 95% confidence interval and 5% level of significance.

3.10 Limitation and delimitation of the study

The study encountered a number of limitations, First the study only used three factors as independent variables of the study. There are other factors which affect Turnover Tax Compliance which were not considered in this study. Thus not all the factors were taken care in the model.

Secondly The scope of the study was in Nairobi if the same study can be simulated in other counties then the results could basis of comparison. In addition, if the study would focus on the taxpayers like corporates then the results would be different.

Lastly the exclusive use of questionnaires as a research instrument, the data collection was done during Covid 19 pandemic where respondents were very cautious with any hardcopy documents in this case not all respondents were willing to take and fill in the questioners. Also some of the respondents were for the opinion that the research was done for investigation purposes.

The researcher personally convinced the respondents by ensuring that all precautions were taken and that the research was solely for research purposes.

3.11 Ethical issues

The researcher obtained a research letter from Kenya School of Revenue Administration and permit from National Commission of Science Technology and Innovation before embarking on the study. To ensure confidentiality was achieved, the respondents were urged not to write their names on the questionnaires thus ensuring the respondents remained anonymous. Information received was solely used for this study, the researcher was also honest throughout the study

4.DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter details the findings and the discussions of the study. Qualitative data was collected and hence analyzed by use of descriptive statistics and inferential statistics. For descriptive statistics, the mean and standard deviation was calculated, while for inferential statistics, regression was calculated. The data was presented in tables.

4.2 Response rate

The researcher distributed 386 questionnaires out of which 348 were received, 17 questionnaires were rejected as a result of improper completion. Thus 331 questionnaires were accepted as correctly filled. This represented an 86% response rate. This was a good response rate as per Mugenda and Mugenda (2003) assertion that a 50% response rate is adequate, 60% good, while 70% rated very well. The response rate was enhanced by the researcher's constant follow up with the respondents to ensure they spared their time to respond to the questionnaires. The researcher's continuous assurance that the data provided by the respondents was confidential also motivated most respondents to fill in the questionnaires.See annex figure 4.1:Response Rate

4.3 Demographic Information

Demographic information details the social economic statistics of the respondents. Factors studied included; Gender, business ownership, year of business existence, monthly sales, main business activity and number of employees.

4.3.1 Gender

The respondents were requested to indicate their gender as per the questionnaire

See annex table 4.1:Gender Distribution

As per the findings shown on table 4.1, 53 percent of the respondents were male while 47 percent of the respondents were female. There are however, no previous research studies/evidence linking gender to Turnover Tax Compliance hence gender was an insignificant variable in the study.

4.3.2 Business Ownership

The respondents were required to tick appropriately whether they are employed or own the business.

See annex Table 4.2: Business Ownership

13 percent of the respondents were employed while 87 percent of the respondents owned the business. This is shown by the findings on table 4.2. This shows that majority of small and medium enterprises are managed by the owners.

4.3.3 Years of business existence

The respondents were also requested to indicate the number of years the business had been in operations.

See annex Table 4.3: Years of business existence

As per the findings on table 4.3, 29 percent of the businesses had been in existence for less than three years, 39 percent of the business had been in existence for between three to five years, 22 percent of the businesses had been in existence for between six to ten years while 10 percent of the businesses had been in existence for over ten years. This shows that majority of small and medium enterprises in Roysambu had been in existence for between three to five years.

4.3.4 Monthly sales

The respondents were requested to indicate their monthly sales.

See annex Table 4.4: Monthly Sales

As per the findings shown on table 4.4, majority of the businesses recorded monthly sales of; 200,001-300,000 (31.4%) followed by sale of 100,001-200,000(28%).Businesses also recorded monthly sales of 400,001-500,000(19%). While, some businesses got 300,001-400,000 monthly sales which is (16.6%). Lastly, few businesses recorded monthly sales of above 500,001(5%)

4.3.5 Main Business Activity

The respondents were requested to indicate their major business activity.

See annex Table 4.5: Main Business Activity

As per the findings in table 4.5, major business activity was cosmetics and beauty shops at 14 percent, closely followed by garages and clothing and shoes at 12 percent respectively, cereals and shops at 11 percent respectively, hardwares at 9 percent, hotels, wholesalers and others at 8 percent respectively and lastly Cyber cafe at 7 percent.

4.3.6 Number of employees

The respondents were also asked about the number of employees hired to run their businesses

See annex Table 4.6 : Number of employees

As per the findings shown by table 4.6, 74 percent of the businesses had zero to five employees, 20 percent had employed six to ten employees, 4 percent had employed eleven to fifteen employees while two percent had employed more than fifteen employees.

4.4 Assumptions of Regression

Prior to performing the inferential analyses, statistical assumptions were tested to establish if the data met the normality and Multicollinearity assumptions, and it was on the basis of these results, that tests of associations and prediction were performed.

4.4.1 Test of Normality

Normality was tested using the Shapiro-Wilk test. This test detects existence of skewness or kurtosis or both where results range from zero to one. Values greater than 0.05 is an indication that the data is normal (Fouche & Delport, 2011).

The results indicated that all the variables were above 0.05 (p > 0.05) hence confirming data normality. P-values for the Shapiro-Wilk tests were 0.48 for economic factors, 0.32 for political factors, 0.71 for psychological factors, and 0.18 for Turnover Tax Compliance. All the p-values were greater than the cutoff point of 0.05 at 95% confidence level, thus confirming that data was collected from a population which is normally distributed.

See annex Table 4.7: Tests of Normality

4.4.2 Test of Multicollinearity

Multicollinearity is very high correlation between the independent variables in a multiple regression model thus leading to defective estimates of regression coefficients.

Consequently, an attempt to explain the relationship between the independent variable and the dependent variable results into strange results (Creswell, 2014). This results to reduced reliability due to increased standard error of estimates of the Betas. The data was therefore tested for multicollinearity by computing the Variance Inflation Factors (VIF) and its reciprocal, the tolerance. The Variable Inflation Factor (VIF) measures correlation level between the independent variables and estimates the inflated variances due to linear dependence with other independent variables.

In the current study tolerance ranged from 0.43 to 0.79 and therefore its reciprocal, the VIF was between one and two, which is below the maximum threshold value. A generally accepted principle dictates that VIFs of 10 or higher is an indication of severe multi-collinearity there by affecting the study. The tolerance threshold is 0.2 and below (Ary, Jacobs & Sorensen, 2015). The variables of the study indicated VIF values were 1.085 for economic factors, 1.174 for political factors and 1.261 for psychological factors which were less than 10. This indicated that the data set displayed no multi-collinearity.

See annex Table 4.8: Multicollinearity Test

4.5 Descriptive Statistics

4.5.1 Turnover Tax Compliance factors

The respondents were asked several questions regarding Turnover Tax Compliance. The rating was done on a Likert scale 5 = Strongly Agree   4 = Agree   3 = Neutral   2 = Disagree   1= Strongly Disagree.

See annex Table 4.9: Turnover Tax Compliance Indicators

As per the results on table 4.9, mean of 4.12 respondents had registered with KRA for tax payment with a mean of 3.25. Respondent were able to accurately determine their tax liability. They file returns and pay taxes in time had a mean score of 2.40. Lastly, on whether keep up to date books of account for your business had a mean score of 3.26.

4.5.2 Economic factors and their influence on Turnover Tax Compliance

Economic factors were studied and analyzed to determine their influence on Turnover Tax Compliance for MSMEs in Roysambu Area. The indicators included; tax rates, fines and penalties and tax Audit. The respondents were requested to rate various statements in regards to Turnover Tax Compliance. The rating was done on a Likert scale 5 = Strongly Agree   4 = Agree   3 = Neutral   2 = Disagree   1= Strongly Disagree

See annex Table 4.10 : Responses on economic factors

The results on table 4.10 showed that respondents were uncertain that tax rates affect Turnover Tax Compliance with a mean of 3.23 and a standard deviation of 1.113. The government should work towards reducing the tax rates which will in turn motivate more people to be tax compliant thus increasing the tax revenue. Respondents were uncertain whether imposing fines and penalties would influence

Turnover Tax Compliance with a mean of 3.08 and a standard deviation of 1.312. A mean of 4.69 showed that the respondents strongly agreed that auditing tax payers would increase Turnover Tax Compliance with a standard deviation of 1.362. A mean of 3.02 indicated that respondents not certain that the amount of taxes payable influenced Turnover Tax Compliance with a standard deviation of 1.469. Respondents also strongly agreed that reduced fines would deter people from tax evasion with a mean of 4.95 and a standard deviation of 1.093. Penalties imposed for tax noncompliance should be reduced to encourage more tax payers to comply. Additionally, tax amnesties should be encouraged thus motivate more tax payers to be tax compliant.

4.5.3 Political factors and Turnover Tax Compliance

The relationship between political factors and Turnover Tax Compliance in MSMEs in Roysambu area was studied and analyzed. The political factors indicators were; government services, complexity of tax laws and Trust in the government of the day. The respondents were requested to rate various statements in regards to Turnover Tax Compliance. The rating was done on a likert scale 5 = Strongly Agree 4 = Agree   3 = Neutral 2 = Disagree   1= Strongly Disagree.

See annex Table 4.11: Responses on political factors

The results shown on table 4.11 shows that respondents strongly agreed that Turnover Tax Compliance is affected by complexity of tax laws as indicated by a mean of 4.77 and a standard deviation of 1.433. Respondents agreed that they trusted the government as indicated by a mean of 3.22 and a standard deviation of 1.303. The government need to do more to earn trust from the citizens and increase Turnover Tax Compliance. The respondents were uncertain about their satisfaction on services offered by the government as shown by the mean of 2.87 and a standard deviation of 1.594. The government should improve on the services offered to the people to increase their satisfaction and to also motivate the tax payers to be tax compliant. Respondents strongly agreed that the government portrays a positive image as per the mean of 4.73 and a standard deviation of 1.037. The government should continue portraying a positive image to continue motivating tax payers to be more tax compliant.

4.5.4 Social Psychological factors and Turnover Tax Compliance

Social psychological factors were studied and analyzed to determine their influence on Turnover Tax Compliance for MSMEs in Roysambu Area. The indicators used for the study were; social norms, perception of equity or fairness and attitude. The respondents were requested to rate various statements in regards to Turnover Tax Compliance. The rating was done on a likert scale of 1-5 where; 5 = Strongly Agree 4 = Agree   3 = Neutral 2 = Disagree   1= Strongly Disagree.

See annex Table 4.12 : Responses for Social Psychological factors

From the study findings in table 4.12, respondents agreed that tax revenue was not spent on public services with a mean of 3.10 and a standard deviation of 1.237. A mean of 3.61 showed that some tax collectors were also honest with a standard deviation of 1.371. Respondents were uncertain that tax payers were unwilling to pay taxes with a mean of 2.66 and a standard deviation of 0.926. This could have been contributed by the perception that taxes are not spent on public services. Respondents agreed that ineffective enforcement actions led to tax noncompliance with a mean of 4.18 and a standard deviation of 1.267.Noncompliance was consistent within group expectations as agreed by the respondents with a mean of 2.58 and a standard deviation of 1.354.Respondents agreed that perceived pressure on payment of taxes greatly influence Turnover Tax Compliance with a mean of 3.62 and a standard deviation of 1.193.Respondents agreed that general satisfaction with government affect Turnover Tax Compliance with a mean of 4.27 and a standard deviation of 1.275.Respondents agreed that development projects are not equally distributed in the country with a mean of 3.10 and a standard deviation of 1.218.Respondents agreed that tax payers are ready to comply when tax authorities are fair in public resources with a mean of 3.58 and a standard deviation of 0.806.

4.6 Inferential Statistics

An analytical model had been developed in order to establish the strength and direction in which each predictor influenced the regressor which was Turnover Tax Compliance in Micro Small &Medium Enterprises sectors in Roysambu.

Correlation Analysis

A correlation coefficient is calculated to determine how strong / weak a linear relationship between two ranked or numerical variables is (Smith, 2010).

Pearson correlation coefficient (r) was used to assess strength of association between the study variables. Where (r) is more than 0.7, variables indicates strong correlation. Results indicate on Table 4.13 indicates Turnover Tax Compliance had strong positive correlation with economic factors, political factors and psychological factors at 0.718, 0.516 and 0.828 respectively. These results show that in terms of statistics, political factors have more statistical influence on Turnover Tax Compliance in Micro Small &Medium Enterprises sectors in Roysambu.

See annex Table 4.13: Correlations Statistics of Independent and Dependent Variables

4.7 Regression Analysis

The broad objective of the study was to establish the factors affecting Turnover Tax Compliance from in Micro Small & Medium Enterprises sectors in Roysambu. To achieve this objective, three objectives and hypothesis were set and formulated respectively. Subsequently, to achieve the set objectives and to answer the hypothesis, the study used

various inferential statistical tools and Multiple regression analyses.

4.7.1 Model Summary

4.7.2 Joint Effect Analysis of Variance Between economic factors, political factors and psychological factors on Turnover Tax Compliance

The findings in Table 4.14, revealed that economic factors, political factors and psychological factors correlate with Turnover Tax Compliance up to 81.8% (R=0.818) and accounts for a variation of 66.9% (R^2 =0.669). This implies that 33.1% of the change in Turnover Tax Compliance was caused by other factors which were not included in the model. The findings further reveal that even if the results adjust, the model would still account for 66.3% (AdjustedR^2, 0. 663) variation of Turnover Tax Compliance.

See annexTable 4.14 : Overall effect of Turnover Tax Compliance

4.7.3 Regression Coefficient

Multiple regression analysis was conducted as shown in Table 4.14 Substituting the values in the Equation Y=0.490βo+0.117+0.535+0.590+e

The Regression equation shows that the independent variables and dependent variable were statistically significant. A unit change in economic factors, political factors and psychological factors increase Turnover Tax Compliance by 0. 117, 0.535 and 0.590 respectively.

4.7.4 Analysis of Variance

In order to determine the regression model explains the relationship between the independent and dependent variables, ANOVA test were computed. The findings from Table 4.17 an F statistics value of 37.862 with a significance level of 0.000 which was less than 0.05 significance level and it implies model is statistically significant. The overall of implication of the model is that independent variables contribute significantly to changes in the dependent variable.

4.7.5 Test of Hypotheses

The first hypothesis Ho_1 stated that Economic factors does not influence Turnover Tax Compliance in Turnover Tax Compliance from in Micro Small &Medium Enterprises sectors in Roysambu. Economic factors has a positive relationship effect on the Turnover Tax Compliance in Micro Small &Medium Enterprises sectors in Roysambu.The results on Table 4.14 revealed that p value was less than 0.05, ρ=0.006 which implies that relationship was statistically significant therefore hypotheses was rejected.

The second hypothesis Ho_2 stated that political factors does not influence Turnover Tax Compliance in Turnover Tax Compliance from in Micro Small &Medium Enterprises sectors in Roysambu. Political factors have a positive relationship effect on the Turnover Tax Compliance in Micro Small &Medium Enterprises sectors in Roysambu.The results on Table 4.14 revealed that p value was less than 0.05,

ρ=0.003 which implies that relationship was statistically significant therefore hypotheses was rejected.

The third hypothesis Ho_3 stated that Psychological factors do not influence Turnover Tax Compliance in Micro Small &Medium Enterprises sectors in Roysambu. Psychological factors has a positive relationship effect on the Turnover Tax Compliance in Micro Small &Medium Enterprises sectors in Roysambu.The results on Table 4.14 revealed that p value was less than 0.05, ρ=0.000 which implies that relationship was statistically significant therefore hypotheses was rejected.

See annex Table 4.15: Summary of Hypothesis Testing

4.8 Discussion of the Findings

This chapter presents discussion of the results of various tests carried out on the study. The results of each of the hypothesis in this study will be discussed.

4.8.1 Effect of Economic Factors on Turnover Tax Compliance

First objective of the study was to determine the effect of economic factors on Turnover Tax Compliance and from the findings this study was statistically significant at a p value of 0.006 which is less than 0.05 the convectional probability significance level. The coefficient of 0.254 shows that a unit increases in economic factors would lead to an increase in Turnover Tax Compliance. Similar findings were revealed by Jie Ma (2017) that economic factors (probability of detection and tax rates) have significant impacts on Turnover Tax Compliance in both developed and developing countries. Economic factors can affect individuals Turnover Tax Compliance behavior in various ways; an individual might minimize their tax liability if they perceive the amount of tax is high or they might opt to understate their income if they are not detected. The Turnover Tax Compliance determinants related with economic factors such as tax rates, income level, tax audits and fines and penalties are explored in more detail.

4.8.2 Effect of Political on Turnover Tax Compliance

Second objective of the study was to establish the effect of political factors on Turnover Tax Compliance and from the findings this study was statistically significant at a p value of 0.003 which is less than 0.05 the convectional probability significance level. The coefficient of 0.299 shows that a unit increases in political factors would lead to an increase in Turnover Tax Compliance. The findings concurred with Merima, Odd et al (2013) in a study conducted in four African countries; Kenya, Uganda, Tanzanian and South Africa they found that taxpayers who are satisfied with provision of public services like water, roads, health and security were more likely to support the government in honoring their tax liability. Tax payers will be more willing to pay taxes when the government spends more money on public goods (Amina & Kedir 2015). Marco & Climent (2015) highlighted that delivery of public goods increased Turnover Tax Compliance by the property owners in Canada and in USA.

4.8.3 Effect of Psychological Factors on Turnover Tax Compliance

Third objective of the study was to determine the effect of psychological factors on Turnover Tax Compliance and from the findings this study was statistically significant at a p value of 0.000 which is less than 0.05 the convectional probability significance level. The coefficient of 0.528 shows that a unit increases in psychological factors would lead to an increase in Turnover Tax Compliance. Similar findings were revealed by Lumumba et al. (2010) in his study on taxpayer's attitude among SMEs in Kerugoya Kenya he discovered that lack of understanding in tax law contributed to non-compliance. In conclusion, it can be said that if tax attitude is positive, Turnover Tax Compliance will increase. Kinyua (2014) found that individual attitude plays a great role on voluntary compliance of tax payment on among taxpayers in Nairobi. He recommended that government should sensitize the tax payers on the importance of paying tax.

5.SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a discussion on the thesis summary based on the earlier established hypothesis. It further discusses major study findings, conclusions and eventually provides directions in the form of recommendations.

5.2 Summary of Findings

The overall objective of this study was to analyze the factors affecting Turnover Tax Compliance in micro, small and medium enterprises sector in Roysambu area in Nairobi. In particular, the study sought to determine the effect of economic factors on Turnover Tax Compliance, to establish the effect of political factors on Turnover Tax Compliance. Lastly to determine the effect of psychological factors on Turnover Tax Compliance

5.2.1 Effect of Economic factors on Turnover Tax Compliance

The first objective was determining the effect of economic factors on Turnover Tax Compliance in micro, small and medium enterprises sector in Roysambu area in Nairobi. Correlation analysis showed that economic factors on Turnover Tax Compliance in Roysambu are positively and significantly associated. Also the Regression analysis shown there was a positive significant linear relationship between economic factors on Turnover Tax Compliance Roysanbu evidence of p=0.006, ρ<0.05.

5.2.2 Effect of Political factors on Turnover Tax Compliance

The second objective was to establish the effect of political factors on Turnover Tax Compliance in micro, small and medium enterprises sector in Roysambu area in Nairobi. Correlation analysis showed that political factors on Turnover Tax Compliance in Roysambu are positively and significantly associated. Also the Regression analysis shown there was a positive significant linear relationship between political

factors on Turnover Tax Compliance Roysambu evidence of p=0.003, ρ<0.05.

5.2.3 Effect of Psychological Factors on Turnover Tax Compliance

The third objective was to determine the effect of psychological factors on Turnover Tax Compliance in micro, small and medium enterprises sector in Roysambu area in Nairobi. Correlation analysis showed that psychological factors on Turnover Tax Compliance in Roysambu are positively and significantly associated. Also the Regression analysis shown there was a positive significant linear relationship between psychological factors on Turnover Tax Compliance Roysambu evidence of p=0.000, ρ<0.05.

5.3 Conclusions

Based on the foregoing findings, the study thus fails to accept the first null hypothesis and concludes that economic factors have significant effect on Turnover Tax Compliance in micro, small and medium enterprises sector in Roysambu area in Nairobi. Economic factors are found to play a significant role in the Turnover Tax Compliance in micro, small and medium enterprises sector in Roysambu area in Nairobi. It is particularly notable Tax rates affect compliance

Based on the findings on political factors, the study fails to accept the first null hypothesis and concludes that political factors have a significant effect on Turnover Tax Compliance in micro, small and medium enterprises sector in Roysambu area in Nairobi. political factors were found to play a significant role in the Turnover Tax Compliance in micro, small and medium enterprises sector in Roysambu area in Nairobi. The respondent agreed they Trust the government to a great extent

Based on research finding it can be concluded that the study fails to accept the first null hypothesis and concludes that psychological factors have a significant effect on Turnover Tax Compliance in micro, small and medium enterprises sector in Roysambu area in Nairobi. Psychological factors were found to play a significant role in the Turnover Tax Compliance in micro, small and medium enterprises sector in Roysambu area in Nairobi and Perceived pressure influence Turnover Tax Compliance

5.4 Implication to Theory

The findings from this study expands the frontiers of knowledge, adding to the existing literature by confirming empirically, that indeed, economic factors affects Turnover Tax Compliance, political factors affects Turnover Tax Compliance and psychological factors affects Turnover Tax Compliance. The result contributes to strengthen the literature by confirming the economic theory, social influence behavior theory and theory of planned behavior (Allingham and Sandmo 1972: Kelman 1958: Ajzen 1985). And the finding also confirmed that the results contribute more to Turnover Tax Compliance.

5.5 Recommendations

From the findings and conclusion above, the study made the following recommendations whose adoption can promote Turnover Tax Compliance. KRA should pay attention on Tax rates which affect compliance and amount of tax payable. Additionally, KRA should Satisfy taxpayer by services offered which will make taxpayer trust the Government. Finally, KRA should look into Perceived pressure that influence Turnover Tax Compliance, Tax payers unwilling to pay taxes and also Noncompliance consistent within-group expectations.

5.6 Suggestions for Further Research

The study recommends the needs for more studies focusing on other factors not included in the study. The study was only limited to Micro, Small and Medium Enterprises sector in Roysambu area in Nairobi and this calls the need for more studies that are national based to understand the effect of determinants of Turnover Tax Compliance in Kenya. The study was based on quantitative methodology that has limitation on exploring the study variables in detail. There is need for more studies to explore the contribution of determinants of Turnover Tax Compliance in Kenya in more detail.

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Annex

Independent variables   **Dependent variable**

Economic factors
- Tax rates
- Fines and penalties
- Tax Audit

Political factors
- Government services
- Perception on country politics.
- Trust in the government of the day

Turnover Tax Compliance
- Timely Filing of returns
- Declaring the correct amount
- Timely payment

Psychological factors
- Social norms
- Perceptions of equity or fairness
- Attitude

Source: Author (2020)

Figure 2.1: Conceptual framework

Table 3.1: Target Population

Item	Target Population
Micro Small Enterprises	6,045
Medium Enterprises	5,456
Total	**11,501**

Table 3.2: Test of Reliability of Questionnaire

Factor	Number of Items	Cronbach Alpha score	Conclusion
Economic factors	5	0.880	Reliable
Political factors	4	0.746	Reliable
Psychological factors	9	0.722	Reliable
Turnover Tax Compliance	4	0.854	Reliable

Source: Survey Data (2020
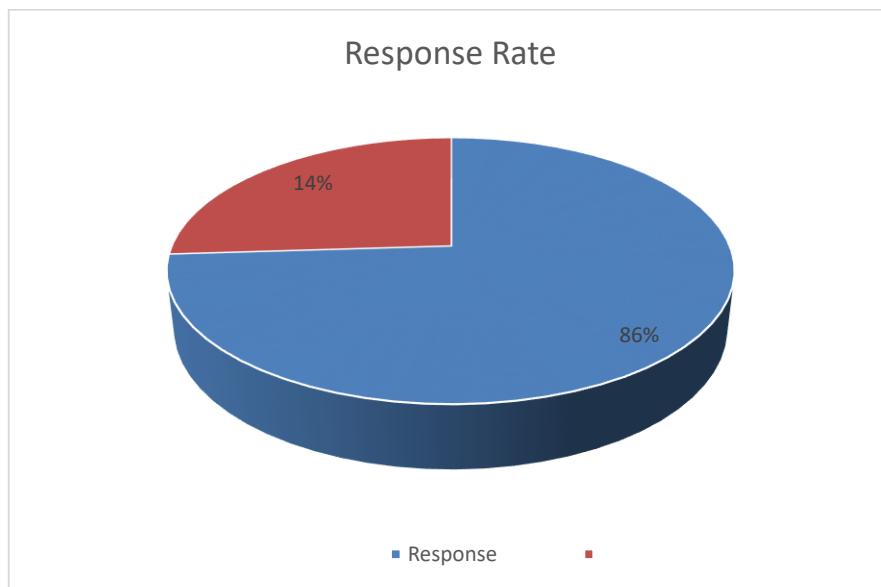
Figure 4.1: Response Rate

Survey Data (2020)

Table 4.1: Gender Distribution

Gender	Frequency	Percent
Male	176	53.2
Female	155	46.8
Total	**331**	**100.0**

Source: Research, 2020

Table 4.2: Business Ownership

Business Ownership	Frequency	Percent
Employed	44	13
Owner	287	87
Total	**331**	**100.0**

Source: Research, 2020

Table 4.3: Years of business existence

Number of years	Frequency	Percent
<3	97	29
3-5	129	39
6-10	73	22
>10	32	10
Total	331	100.0

Source: Research, 2020

Table 4.4: Monthly Sales

Monthly sales In KSH	Frequency	Percent
100,001-200,000	93	28
200,001-300,000	104	31.4
300,001-400,000	55	16.6
400,001-500,000	63	19
>500,001	16	5
Total	331	100.0

Source: Research, 2020

Table 4.5: Main Business Activity

Main Business Activity	Frequency	Percent
Hardware	29	9
Supermarket & Shops	37	11
Cosmetics and beauty shops	45	14
Garage	39	12
Wholesalers	27	8
Clothing &Shoes	40	12
Cereals	37	11
Hotel	27	8
Cyber cafe	24	7
Others	26	8
Total	**331**	**100.0**

Source: Research, 2020

Table 4.6 : Number of employees

Number of employees	Frequency	Percent
0-5	246	74
6-10	65	20
11-15	13	4
>15	7	2
Total	331	100.0

Source: Research, 2020

Table 4.7: Tests of Normality

	Shapiro-Wilk		
	Statistic	df	Sig.
Economic factors	0.23	331	0.48
Political factors	1.21	331	0.32
Psychological factors	1.00	331	0.71
Turnover Tax Compliance	0.75	331	0.18

   a.   Lilliefors Significance Correction

Table 4.8: Multicollinearity Test

	Coefficients[a]	
	Collinearity Statistics	
	Tolerance	VIF
Economic factors	0.79	1.085
Political factors	0.43	1.174
Psychological factors	0.62	1.261

a. Dependent Variable: Turnover Tax Compliance
b. Predictors: (Constant), economic factors, political factors and psychological factors

Table 4.9: Turnover Tax Compliance Indicators

Turnover Tax Compliance question	Mean	Std. Deviation
I registered with KRA for income tax	4.12	0.330
I'm able to accurately determine your tax liability	3.25	0.432
I file your returns and pay taxes in time	2.40	0.492
Books of account for your business are kept up to date.	3.26	0.441
TOTAL	**3.25**	

Table 4.10 : Responses on economic factors

	Mean	Std. Deviation
Kenyan tax rates affect Turnover Tax Compliance	3.23	1.113
Imposition of fines and penalties by KRA make tax payers compliant to tax laws	3.08	1.312
The amount of taxes payable influence your Turnover Tax Compliance	4.69	1.362
Auditing tax payers would deter people from evading taxes if KRA detects tax evasion	3.02	1.469

Table 4.11: Responses on political factors

	Mean	Std. Deviation
Complexity of tax laws contributes to tax noncompliance	4.77	1.433
Trust in government in utilization of taxes influence Turnover Tax Compliance	3.22	1.303
I am satisfied with services provided by the government	3.87	1.594

I remit my taxes because the government portrays a positive image i.e. government is fighting corruption and is achieving tax objectives	4.73	1.037
TOTAL	**4.14**	

Table 4.12 : Responses for Social Psychological factors

Social Psychological factors	Mean	Std. Deviation
Tax revenues are not spent on public services as should be	3.01	1.237
Some of tax collectors are not honest thus affecting Turnover Tax Compliance	3.61	1.371
Taxpayers are generally not willing to pay taxes	2.66	0.926
Taxpayers who perceive the tax authorities' enforcement actions to be ineffective are less compliant	4.18	1.267
Tax payers may commit non-compliance as long as your non-compliance is consistent with in-group expectations and norms	2.58	1.354
Perceived pressure on payment of taxes greatly influences Turnover Tax Compliance	3.62	1.193
General satisfaction levels with political leaders affect Turnover Tax Compliance	4.27	1.275
Developments are not equally distributed in the country	3.10	1.218
Taxpayers are ready to comply when tax authorities are fair in tax laws	3.58	0.218
TOTAL	**3.40**	

Table 4.13: Correlations Statistics of Independent and   Dependent Variables

		Turnover Tax Compliance	Economic factors	Political factors	Psychologi cal factors
Turnover Tax Compliance	Pearson Correlation	1			
Economic factors	Pearson	.718	1		
Political factors	Pearson	.516	.494	1	
Psychological factors	Pearson Correlation	.828*	.609*	.360*	1

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

Table 4.14 : Overall effect of Turnover Tax Compliance

	Unstandardized Coefficient		Standardized Coefficient			Collinearity Statistics	
	B	**Std Error**	**Beta**	**T**	**Sig**	**Tolerance**	**VIF**
(Constant)	0.490	0.419		1.169	0.057		
Economic Factors	0.254	0.068	0.117	3.735	0.006	0.79	1.085
Political Factors	0.299	0.096	0.535	3.114	0.003	0.43	1.174
Psychological Factors	0.528	0.139	0.590	3.798	0.000	0.62	1.261
R	0.818						
R Square	0.669						
Adjusted R Square	0.663						
F	37.862						
Sig	0.000						

Dependent Variable: Turnover Tax Compliance

Table 4.15: Summary of Hypothesis Testing

Hypothesis	P-value	Conclusion
H_01: Economic factors does not influence Turnover Tax Compliance in Micro Small &Medium Enterprises sectors in Roysambu	0.006	Reject Ho_1
H_02: Political factors do not influence Turnover Tax Compliance in Micro Small &Medium Enterprises sectors in Roysambu.	0.003	Reject Ho_2

H₀3: Psychological factors do not influence Turnover Tax Compliance in Micro Small &Medium Enterprises sectors in Roysambu.	0.000	Reject Ho₃

Source: Research, 2020