

# Selected Dynamics Influencing Adoption of Integrated Tax Management System By Small And Medium Taxpayers: A Case of Bomet County, Kenya

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**Abstract-** Tax collection is an important means of raising revenue of any country and this determine its economic position. The adequacy of revenues allows the government to support its operations ranging from administrative activities; infrastructure development and service provision .In the first half of the last financial year, KRA reported tax collection below its target. Online iTax was introduced to replace the Integrated Tax Management System (ITMS) previously used by Kenya Revenue Authority. Like iTax, ITMS was unable to handle heavy traffic and had less functionality, forcing the taxman to abandon it for the much more versatile system. This study sought to assess the selected dynamics that influence the adoption of iTax by selected Small and Medium Taxpayers, focusing on those operating within Bomet County. The objectives for this research are; To assess the extent to which iTax system has been adopted by various SME's in Kenya, how do the SME taxpayers level of technical skill influence adoption of iTax system and establish the extent to which availability of internet influences adoption of iTax by SME taxpayers. The study was guided by a combination of Innovation Diffusion Theory (IDT), Technology Acceptance Model (TAM) and the theory of Reasoned Action (TRA). A descriptive survey design was used. The study population comprised of registered wholesaler and retail traders in Bomet County out of which 30% of it was selected as the target representative sample. Data was collected using self-administered questionnaires. The collected data was analyzed using regression model and correlation to determine the relationship between the dependent variable and the independent variables of the study. This was done by aid of Statistical Package for Social Scientist software (version 20). Findings from the study showed availability of internet services was strong and significant  $r(0.682)$ ;  $p \leq 5$ . Ease of use of iTax was the second factor in terms of strength  $r(0.418)$ ;  $p \leq 5$  and significance of relationship with the adaptation of iTax system which followed the availability of internet. Whereas the relationship between technical skills and the adoption of iTax was not very strong in relation to the other variables, it was positive  $r(0.349)$ ;  $p \leq 5$  were presented using tables. The study recommends more ICT infrastructures for easy internet accessibility and trainings on use of iTax system.

**Index Terms-** Integrated tax management system, Bomet, Kenya

## I. INTRODUCTION

Information Communication Technology (ICT) applications have evolved from tools to increase policy effectiveness, cut costs and realize efficiencies, to being more interactive and stakeholder focused (Snellen, 2005). Specifically, in the early 1990s, with the emergence of the internet, email and intranet combined with “the growth of customer relationship management”, and increased public demands for ‘service quality’ and new work methods, the scope of modernization of the public sector through the application of ICT expanded electronic provision of government services and activities (Bovaird, 2003). Many governments’ across the world have invested heavily in ICT/e-governance for the past two decades. ICT has been utilized extensively in the provision of services such as birth and car registration, company licensing, renewal of driving licenses, application of pass ports and in the remission of tax returns. One aspect of e-governance which tends to be most widely utilized is electronic tax system commonly abbreviated as *iTax*. According to Hwang (2000), *iTax* systems can be defined as an electronic tax-filing *system* which utilizes both internet and 2D bar-code systems of filing. This new system is rapidly replacing the traditional manual way of filling income tax returns.

The introduction of Internet filing has contributed to fundamental development in the process of revenue collection. The success of *iTax* can be influenced by various factors which may vary from one nation to another. Existing reports are pointing out that most tax payers have been slow to embrace this system of filling returns. For example, in the US, which introduced e-filing in 1986, it is reported that only 52% of its taxpayers used e-filing in 2007 (The Internal Revenue Service, 2007). It is reported that only 1.25 million taxpayers in Malaysia had adopted e-tax filing system and had filed their tax return through it four years after it was introduced in 2009. This signals the rate at which tax payers are slow to adopt *iTax* as a method of filling tax returns without bringing into light the root causes of such responses.

In Kenya, there are potential 11 million formal tax payers. Whereas *iTax* is expected to be an easily accessible online tax submission, out of this number, only 2 million filed their taxes through the online system by June 30, 2015 in 2014/2015 financial year (KRA, 2015). This translates to 18% of the tax payers in the country. This low adoption of *iTax* is unexpected. Consequently, this study sought to establish the factors

influencing the adoption of the online tax filing system by the Kenyan medium small tax payers by using a case study of Bomet County.

The ever growing need to provide more and better services to the public has led to the need to increase revenue collection in Kenya. This has occasioned the introduction of *iTax* systems. This was meant to improve the accessibility of taxation services to the tax payers all the time from anywhere in a bid to reduce costs of tax accumulation and to improve tax compliance. Despite the efforts made by the government to employ such kind of technology, tax compliance levels are still far below the set national targets. In view of this, less in terms of research has been done on the adoption of *iTax* by Kenyan tax-payers. Overall, past studies identified little findings on the factors that influenced adoption of *iTax* system by small and medium tax payers in the service industry in Kenya. Those findings failed to report on whether the tax-payers have been provided with the necessary taxation education by the revenue authorities. This study therefore seek to fill this gap by assessing the factors influencing adoption of the *iTax* system by selected small and medium tax payers in the service industry in Kenya by using one County as a case study.

Chigona (2008) used innovation diffusion theory (IDT) theory framework to explain communal computing facilities adoption among the urban poor Cape Town South Africa. Lee, Hsieh, and Hsu, (2011), explored the behavioral intentions to use the e-learning system by combining the innovation diffusion theory (IDT) with the technology acceptance model (TAM).

Buabeng-Andoh (2012) studied the factors influencing teacher's adoption and integration of information communication technology in teaching by looking at personal, institutional and technological factors. Talukder (2012) modeled the understanding of factors affecting the adoption of technological innovation by individuals around the organizational factors; individual factors and the social factors. The current study contributes to the adoption of innovation literature by examining innovation adoption through a combined theoretical approach. The study combines the innovation diffusion theory (IDT), technology acceptance model (TAM) and the reasoned theory of action (TRA) to present an extended innovation adoption model. On the context, several studies have been carried out at Kenya Revenue Authority to determine the factors that influence adoption of technological innovations. Obae (2009) studied the use of technological innovation at KRA to achieve turnaround strategy. This study was only based on the internal employees not the clients.

Okech and Mburu (2011), in their research 'Analysis of responsiveness of tax revenue to changes in national income in Kenya 1986-2009', observed over the years, the Kenyan government had continued to experience budget deficit. This had been partly attributed to the inability of the tax system to generate sufficient revenue to finance public expenditure. Inadequacy of tax revenue to finance public expenditure had largely been attributed to lack of responsiveness of tax revenue to changes in national income. Similarly, Kipsang and Rotich (2014) studied the adoption of electronic procurement system at

## II. RESEARCH METHODOLOGY

A descriptive survey design was adopted for this study. A descriptive survey design was considered appropriate for this study as it describes characteristics associated with the subject population, and in particular factors that make them behave the way they do. Cooper (2003) asserts that descriptive design discovers and measures the cause and effect of relationships between variable. Mugenda (2003) state that a descriptive research determines and reports the way things are and attempt to describe possible behavior, attitude, values and characteristics of such things.

The study used a descriptive design because it enables the researcher to collect a large quantity of in-depth information about the population being studied. A survey design was appropriate as the data required for analysis needed was collected from a large population, of SME taxpayers operating in Bomet County. Descriptive survey is also appropriate because it was difficult to observe characteristics of each SME taxpayer. The unit of analysis for the study was every individual taxpayer that has used the *iTax* system and hoping to re-use it again.

The focused of the study was on SME Taxpayers operating in Bomet County. The selected location borders Kericho, Narok, Kisii and Masai Mara counties of Kenya. The county was selected in this study of the adoption of *iTax* system as a representative sample of the rest of the counties in relation. The population of interest for this study was 1543 registered Medium and Small Taxpayers from Bomet County which comprised of: 496 are wholesale and retail trade, 467 in service providers, 338 in agriculture and manufacturing Activities, and 242 in financing and construction businesses.

Sampling is a means of selecting a part of a group from a population to represent the characteristics of the entire group or the population of interest. The of used sample size give accurate information, and reduces the length of time needed for research and cuts costs. Kenya has 47 counties and one county, which is Bomet, was selected as a representative sample. A sample size of 149 out of 496 SME taxpayers was selected for the study since the registered number of wholesalers and retail traders is high among the registered SMEs. This represents 30% of the SME taxpayers in the wholesale and retail trade. According to Blanche, Durrheim & Painter (2008) in a population of up to 1,000, a sample size of 30% is considered sufficient.

The study employed both primary and secondary data collection instruments. Secondary data was collected from KRA and Ministry of Trade office in the County. Primary data was collected using questionnaire and in depth interview method. The questionnaire adopted was both structured and closed questions. Questionnaires were appropriate for a large population as they involve the respondents responding to the questions themselves and they are precise and time saving (Kendall, 2008). The use of interview method of data collection ensures that the questions were understood thus minimizing the risk of collecting incomplete and wrong information as it is with questionnaires particularly when people were unable to understand the questions properly. This data collection method was considered by the researcher as appropriate in providing safe basis for generalization of findings.

According to Kothari (2004), validity is the degree to which an instrument measures what it is supposed to measure.

Validity therefore, the term refers to the extent to which an instrument asks the right questions in terms of accuracy. The content validity of the research instrument for this study was determined through piloting in Kericho County, where the responses of the subjects were checked against the research objectives. For a research instrument to be considered valid, the content selected and included in the questionnaire must be relevant to the variable being investigated (Kothari, 2004). Reliability of an instrument is the measure of the degree to which a research instrument yields consistent results or data after repeated trials (Cooper, 2003). To test the reliability of the questionnaire as a research instrument, Cronbach's alpha was used. Cronbach's alpha is a measure of internal consistency, that is, how closely related a set of items are as a group. Pilot tests on 5 respondents who they were not in the main study but similar characteristics in Kericho County we as used to test validity and reliability of the instruments.

The questionnaires were administered to the respondents directly by the researcher because most businesses in the study area are in close proximity to each other. For those respondents who were not be available for fill the questionnaire immediately they was given some time to fill at their appropriate time and the researcher will collect the filled questionnaires later. The interviews was conducted by the researcher personally at a time and place convenient to the selected owners of wholesalers and retail traders to provide an environment in which the respondents will feel free to participate.

Analysis of the data from fully completed questionnaires was done to ensure that the data is accurate and consistent with other information gathered. Pre-processing of collected data was done by editing the data to detect errors and omissions immediately after questionnaires are received. Thereafter, coding of responses was done, data classified on the basis of common characteristics and attributes. The process data were assembled, statistically analyzed and tabulated in form of statistical tables to allow for further analysis. Regression analysis and correlation were used in data analysis in this study. The Statistical Package for Social Sciences (SPSS) version 20 was used to aid in the statistical analysis.

This research was endeavoring to obtain an informed consent from the respondents before undertaking data collection from the field. The objectives of the research was explained and made known to the respondents so as to solicit their informed consent. Respondents were assured of anonymity and high level of confidentiality of the information provided by respondents through interview or questionnaires. An introduction letter showing the purpose of the research was attached to the questionnaires and interview guides.

### III. RESULTS AND DISCUSSIONS

The study sought and obtained details about the gender of the respondents in Bomet County for purposes of knowing their number. Findings indicated that 61.7% (92) of respondents were Male and 38.3 (57) of respondents were Female aged between 23-35 years. 10.4% (11) of women were below 22 years. The data further indicates that 16% (17) of women were aged between 36 and above years.

Regarding the age brackets of the respondents, the study established that most of the respondents wer below the age of 30 years as shown in Table 1

**Table 1**  
*Distribution of Respondents*

Age of respondents	N	%
21-30 years	81	54.4
31- 40 years	43	28.9
41-50 years	20	13.4
51 years and above	5	3.4
<b>TOTAL</b>	<b>149</b>	<b>100.0</b>

Source 2016

The findings in Table 4.2 show that people with 21 and 30 years stands 54.4% , 31 and 40 years are 28.9%, 41 and 50 years are 13.4% and 51 years and above represent 3.4% this suggest that majority of the respondents were young people (54.4%) aged between 21 and 30 years. It was also necessary to establish the academic qualifications of the respondents as this would have bearing on the quality of the responses and ultimately influence the outcome. Table 4.3 shows the distribution of respondents as per their education levels.

**Table 2**  
*Distribution of the respondents as per their level of education*

EDUCATION LEVEL	Frequency	Percent
Primary level	12	8.1
Secondary level	111	74.5
College level	18	12.1
University level	8	5.4
<b>TOTAL</b>	<b>149</b>	<b>100.0</b>

Source 2016

Table 4.3 shows that those with Primary level (12) which represents 8.1%, Secondary Level (111) which represent 74.5% ,College level 18 which represents 12.1% and University level 8) which represent 5.4%. The majority of the respondents are Secondary level Holders.

The study also sought to find out the type business Table 3 shows the type of businesses of the respondents, whether wholesale or retail.

**Table 3**  
*Type of business activity*

	Frequency	Percent	Percent %	Cumulative %
Whole sale	39	26.2	26.2	26.2
Retail	110	73.8	73.8	100.0
<b>Total</b>	<b>149</b>	<b>100.0</b>	<b>100.0</b>	

Survey data 2016

The researcher found it of importance to ask the respondents to indicate their business' average annual turnover, as this is the major factor that identifies the category under which

a taxpayer falls consequently determining whether the respondents can be classified as Medium and Small Taxpayers. Table 4 shows the results of the findings.

**Table 4**  
**Description of income of the respondents**

	N	%
Below 500,000 per year	9	6.0
500,001-1,000,000	10	6.7
1,000,001-2,000,000	23	15.4
2,000,001-3,000,000	65	43.6
3,000,001 and above	42	28.2
<b>Total</b>	<b>149</b>	<b>100.0</b>

**Source 2016**

Respondents with an annual turnover of over Ksh3 million accounted for 42%, followed in a distance by 16.7% who revealed they had annual turnover of below Ksh500, 000 while 14.6% indicated that their annual turnover is between Ksh500, 000 and Ksh1 million , and 12.6% said their turnover ranged between Ksh1 million and Ksh2 million. The study further revealed that 11.6% had an annual turnover of between Ksh2 million and Ksh3 million. It can therefore be deduced that most respondents had an annual turnover of over Ksh3 million but less than Ksh 300 million and thus can correctly be categorized as Medium and Small Taxpayers..

The study sought to determine how regularly the respondents access internet facilities. The use of iTax is dependent on access to internet and therefore the researcher sought to determine whether the respondents do have access to internet and how regularly. Most of the respondents (77.2%) access the internet on a daily basis, followed by 14.8% who do on a weekly basis. The remainder, 8.0% access the internet at least on monthly basis. It can therefore be deduced that the majority of taxpayers in Bomet County access internet on a daily basis and are therefore in a position to access *iTax*, an online service, with ease.

When the respondents were asked if they would like to use iTax system frequently 54(36.2%) of the respondents strongly agree, 23(15.4%) of the respondents agree, 21(14.1) were neutral while the rest 51(34.2) were negative. From the results it can be concluded that majority

**Table 5**  
**Would like to use iTax system frequently**

	Frequency	Percent
strongly disagree	9	6.0
Disagree	42	28.2
Neutral	21	14.1
Agree	23	15.4
strongly agree	54	36.2
<b>Total</b>	<b>149</b>	<b>100.0</b>

**Source 2016**

In the below table, when the respondents were asked whether iTax is complicated to use 24(16.1) of the respondents strongly agree, 60(40.3) of the respondents agree, 23(15.4%) of

the respondents were neutral, 38(25.5) while 41(27.5) of the respondents were positive.

**Table 6**  
**iTax is complicated**

	Frequency	Percent
strongly disagree	3	2.0
disagree	38	25.5
Neutral	23	15.4
Agree	61	40.3
strongly agree	24	16.1
<b>Total</b>	<b>149</b>	<b>99.3</b>

Respondents were asked if is easy to use iTax 16(10.7) of the respondents strongly agree, 54(36.2) of the respondents agree, 41(27.5) of the respondents were neutral, 34(22.8) of the respondents disagree 4(2.7) of the respondents strongly disagree. When asked if they need somebody to help in use of iTax system, 16(10.7) of the respondents strongly agree, 90(60.4) of the respondents agree, 31(20.8) of the respondents were neutral, 12(8) of the respondents were negative about the findings.

When the respondents were asked if most of the people they can learn easily to use iTax the respondents were negative, 33(22.1) of the respondents were neutral while 52(34.9) of the respondents accepted. When asked if they were comfortable using iTax only 4(2.7%) of the respondents strongly disagree, 53(35.6) of the respondents disagree, 40(26.8) of the respondents were neutral, 42(28.2) of the respondents agree whereas 10(6.7) of the respondents strongly agree.

Majority of the respondents indicated that they need to be taught many times to use iTax 50(33.6%) of the respondents disagree, 30(20.1%) of the respondents were neutral while 69(46.3%) of the respondents were positive about the findings.

A correlation analysis was done based on the findings of this study. The intention of the analysis was to establish whether there was any relationship between the adoption of iTax by the taxpayers in Bomet County (as the dependent variable) with the independent variables (which were the availability of internet services in the county, the ease of using iTax and the technical skills required in the use of iTax). A summary of the correlation findings are shown in Table 7.

**Table 7**  
**Correlation Matrix**

	Y	X1	X2	X3
<b>Extent of influence, Y</b>	1			
Availability of internet services, X1	.682	1		
Ease of use, X2	.418	.396	1	
Technical skills, X3	.349	.165	.172	1

As shown in the study findings which were summarized in Table 4.28 above, the relationship between the adoption of iTax and availability of internet services was strong and significant  $r(0.682)$ ;  $p \leq 5$ . Ease of use of iTax was the second factor in

terms of strength  $r(0.418)$ ;  $p \leq 5$  and significance of relationship with the adaptation of iTax system which followed the availability of internet. Whereas the relationship between technical skills and the adoption of iTax was not very strong in relation to the other variables, it was positive  $r(0.349)$ ;  $p \leq 5$ .

As shown in the values  $[F(3, 145) = 56.939, p < 5]$ , arrived at from the analysis done on Table 8 there is a significant relationship between predictor variables and dependent variable.

**Table 8**  
**Analysis of Variance**

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	92.950	3	30.983	56.939	.000 <sup>b</sup>
Residual	78.902	145	.544		
Total	171.852	148			

**Source 2016**

a. Dependent Variable: Extent of influence  
(Constant), technical skills, availability of internet services, ease of use

The findings of this study were subjected to regression analysis relating to the coefficient and the ratio. The results of this analysis are shown in Table 4.32 below. A t - ratio of 3.3 achieved in this analysis means that the other variables which influence the adaptation of iTax system in Bomet County and were left out in the model also positively determine the adoption to a significant extent.

**Table 9**  
**Regression Coefficients**

Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.
	B	Beta		
	Std. Error			
(Constant)	.879	.271	3.246	.001
1 availability of internet services	.425	.045	.587	.000
ease of use	.154	.065	.227	.019
technical skills	.221	.056	.395	.000

a. Dependent Variable: Extent of influence

**Source 2016**

The findings shown in Table 4.32 concur with the findings by Thairu (2014) that there is a relationship between ease of use of iTax which is indicated by a t-ratio of 2.366 in this study to training offered by KRA so as to make the use of online tax filing system to be easy for the taxpayers. Whereas this factor was not part of the model, it largely affects the second factor and consequently affects the adaptation of iTax.

#### IV. CONCLUSIONS AND RECOMMENDATIONS

The purpose of the study was to investigate selected dynamics influencing adoption of iTax system by small and medium taxpayers in Kenya. The study focused on selected SMES in Bomet County. The study was guided by three specific research objectives: To assess the extent to which iTax system has been adopted by various SME's in Kenya, how do the SME taxpayers level of technical skill influence adoption of iTax system and establish the extent to which availability of internet influences adoption of iTax by SME taxpayers. The study involved 149 respondents drawn from the county. Data was collected through questionnaires. The data gathered was analyzed using co relational, multiple regression and descriptive statistics. Tables were computed to draw some inferences related to the variables investigated.

The results show that whenever the independent variables in a combined model which included in this case availability of internet services, ease of using iTax and the technical skills required have value of significance as 149, adoption of iTax will thus be rated as 3.65. This shows further that any increase in a unit of internet availability is likely to translate to 3.48 increases in the adoption of iTax as a tax filing system. In addition, a unit increase in the way in which users will perceive that iTax is easy to use can lead to a 3.58 increase in the adoption of online tax filing system. Lastly, these results reveal that an increase in a unit of technical skills can lead to an increase in the adaptation of iTax by a value of 3.36.

The study therefore concludes that these findings point out that availability of technical skills is the least influential dynamic ( $\beta = 3.36$ ;  $p = 149$ ) while the ease of use is the most influential factor ( $\beta = 3.58$ ;  $p = 149$ ) which determines the taxpayers' adaptation of iTax in Bomet County. The study further established that despite availability of internet there is still need for more training on use online iTax system

The study acknowledges that to some extent the Kenya Revenue Authority has put in place good system for filling returns there is still need for more infrastructures for easy accessibility of internet services. The system should have observable outputs and its adoption should be drive through the user social interaction and organizational support. However a lot more can be done on training of taxpayers on the use of iTax by the Kenya Revenue authority in order to increase the awareness of iTax system. The study also recommends that Kenya Revenue Authority to should modify the iTax system so that they will enable untrained SMEs to use.

The study found that accessibility of internet was the main influence of adoption iTax. The study therefore recommends that further studies be carried out on the factors the lead to adoption of iTax in other sectors.

The study was also carried out in the context of Small and medium tax payers and also further research on large tax payers operating in Kenya.

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