Online Tax System And Tax Compliance Among Small And Medium Enterprises In Kericho County, Kenya

Geoffrey Kiplang'at Yegon [*], Isaac Kiprotich Naibei[**], Lydia Langat[***]

[*] School of Business and Economics, University of Kabianga
[**] School of Business and Economics, University of Kabianga
***School of Business and Economics University of Kabianga

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Abstract- In bid to enhance tax compliance many states globally have now introduced online tax systems. Whereas these systems have been seen as an efficient way of tax administration, the complex nature of Small and Medium Size Enterprises (SMEs) in many developing countries may make pose challenge to these innovations. The purpose of this study is to establish whether tax compliance among small and medium enterprises in Kericho County, Kenya, is associated with online tax system, as the general objective. The population was 102 registered SMEs located in Kericho County, with a sample size of 102 SMEs. Kericho County was stratified into various sub-counties which included Bureti, Belgut, Ainamoi, Kipkelion East and Kipkelion West. The study employed census method to select the registered SMEs in the study area. Structured questionnaires were the collection tools for primary data. Instrument's validity was undertaken through a review of the instrument by an expert. In order to test if the instrument was reliable, Pearson coefficient of correlation was applied. The Statistical Package for Social Sciences (SPSS) version 20 and correlation analysis was utilized in analyzing the results. The study findings indicated that online tax registration, filing and payment had positive and significant effect on tax compliance where their statistical values were $t(77) = 2.067$; $p=0.01$, $t(77) = 2.069$; $p=0.04$, and $t(77) = 8.285$; $p=0.01$ respectively. Online tax system stability had a negative and statistically significant effect on tax compliance, $t(77) = -3.844$; $p=0.01$. This study recommends that SMEs embrace online tax registration, filing and payment as that will enable tax compliance be achieved with ease.

***Index Terms*-** Online tax system, tax compliance, SMEs, Kenya

I. Introduction

Nowadays, many countries in the world have modern systems of taxation upon which citizens register, perform self-assessment and pay tax due to the government revenue collecting units. Taxpayers who fail to pay by way of evading or resisting to pay are punished by law. Kenyan Government has its agent whose mandate is to manage tax assessment, collects and account for the revenue collected from taxes on central government behalf and in accordance with the laws of Kenya. In Kenya, the responsibility of administering taxes is the Revenue Authority of Kenya, (KRA) whose establishment took effect in1995 under Chapter 469, Act of Parliament, with its parent agency being Ministry of Finance. KRA is headed by the Commissioner of Income Tax, (Maundu, 3 March 2015). KRA has six departments which include department of corporate support services, department of technical support services, department for customs, and services department for domestic taxes for medium and small taxpayers, department of investigations and enforcement and department for domestic taxes related to large tax payers. It also has four service departments which coordinate operations' efficiency that include, department of ethics and integrity, department of risk management and internal audit, department of information communication technology and legal service department, (KRA, 22 October 2016). The taxpayers are required to register online through iTax, an online system platform that taxpayers utilize to apply for Personal Identification Number (PIN). The same platform offers varieties of online tax services such as enabling taxpayers' self-assessment, filing for personal and business returns as well as submission of returns and nil returns to the KRA agency. It also facilitates payment of VAT to the KRA by taxpayers who have registered for VAT and facilitates registration of Turnover tax among others. The KRA website enables taxpayers to download various forms they need to fill for tax payment reasons.

Taxation is a necessity for sustaining economic development and administration of tax is the primary role of a successful nation. In Kenyan economy, the leading source of revenue to the government is tax. Provided it's a central function, revenues collected in form of taxes have been utilized to achieve two objectives. The first objective is raising enough revenue to provide public goods with no need to go for excessive public borrowing. The other objective is that it is used in mobilizing revenue in a way that is equitable and in a manner which minimizes its discouraging effects on economic activities, (Moyi Ronge, 2006). Taxation proofs to be the major revenue source to the government for the developed and developing economies. Though that is the case, there are challenges that compromise this method of government financing one of which is the deliberate failure to pay tax. Transitional economies face this adverse challenge. In a review by GIZ (2010), the observation made is that countries which are more developed report relatively higher tax compliance levels of about (35%), whereas African countries record less than 23%. There are shortfalls in budgets and revenue gaps are realized in the budgets, resulting to overreliance on external sources that are unsustainable such as high interest loans from banks and multilateral donors. Countries which are developing are therefore needed to establish and implement appropriate policies that will reduce the prevailing tax shortfalls and unhealthy overreliance on donor funds.

Braithwaite (2009) coined that the full payment of all taxes due is termed as tax compliance. Tax non-compliance on the other hand is defined the actual amount of taxes paid minus the amount of taxes due. The difference arises as a result of overstatement and understatement of expenses, income and deductions. Non-compliance consists of intentional evasion and unintentional non-compliance, which is as a result from errors of miscalculation and minimum knowledge and understanding of laws relating to taxation. Tax compliance according to Jones (2009) refers to the filling and delivering reports on information relating to tax as well as performing self-assessment of taxes outstanding and paying those taxes without being forced to do so. This definition contains three dimensions which can be deduced to mean tax compliance and they are the reporting, filing and payment compliance. Filing compliance implies that the taxpayer did submission of the correct forms to the revenue authority. Reporting compliance means the accurate return was done while payment compliance refers to whether the taxpayer paid the amount, he/she was supposed to pay as reported tax liability in a timely manner. Any taxpayer qualifies to be not complying if these aspects are not met.

According to Tendai (2018), as cited in Muita (2011), the taxpayer finds paper returns to be tedious to file and reconcile by the authorities. Because of that reason, it required the use of electronic filing whose purpose involved keeping the accuracy and reconciliation of data in a timely manner therein since the SAP systems of ZIMRA performed automatic validation and reconciliation of the returns. Tax compliance is therefore the ability to pay taxes as well as reporting of the correct and accurate tax information on time. Most definitions relating to tax compliance focus on the information accuracy while making returns and the cost involved in making those tax returns. Auyat (2013) for instance, gave a definition for compliance as submission of correct and accurate, lodging income tax return with the expected payments as and when they fall due. As per Mandola (2013), tax compliance is of two types; involuntary and voluntary. Voluntary tax compliance does not require authorities to compel the taxpayers to comply with requirements for tax unlike involuntary tax compliance. Tax compliance concentrates on timely, correct and accurate remittance of tax and other tax information to the KRA. Nakiwala (2010) asserts that levels of tax compliance are influenced by online filing system has a direct impact on. The system ensures that a taxpayer fills all mandatory fields before being allowed to proceed to the next level. This assures the revenue authority, reception of a relatively higher quality data than the manual returns of the data, (Nakiwala, 2010). Mandola (2013) further explains that online tax filing ensures that there is no missing information, inconsistencies or unintentional errors made.
In developing countries, the income tax compliance has been affected by continuous changes that have been made in laws relating to tax. They are complex and only the experts in taxation can understand them. Additional problems have risen on the matters compliance by the taxpayers who have no access to competent specialists who are knowledgeable on tax issues, (Oberholzer, 2008). In addition, enforcing these laws has no tendency to reduce non-compliance on part of taxpayers since certain tax policies put small and medium taxpayers under pressure of high liquidity, most being forced into the category of informal sector (Terkper, 2003).

The choice of the taxpayer to file and submit tax return to the KRA depends on many factors which are from within the individual taxpayer or external. For instance, Azjen (1991) and Peter (2012) assert that factors relating to psychology, including morality as well as ethics contribute a lot at influencing a taxpayer behavior. Azjen developed the theory of planned behavior in 1991. Peter (2012) cited that the theory talks of taxpayers' behaviors being influenced by a number of factors which arise from a given reason and emerge in various ways which are planned. Basing his arguments on the theory, Peter does not agree with the theory that compliance is affected by psychological factors.

SMEs are part of the major contributing enterprises to Kenya's economy through revenue collected by both county governments and the national government from them. They are viewed by the government as part of the major pillars of the vision 2030. Introduction of iTax was meant to boost administration and collection of tax on an effective and efficient manner across all the enterprises, SMEs included. There are many SMEs registered with KRA in Kericho County and it is the KRA's expectation that revenues collected should be directly related to the number of SMEs that have been registered. However, according to the conversation that the researcher engaged with the KRA agency in Kericho County, only a few SMEs have been able to file and submit their tax returns over the last periods. For that reason, KRA has been registering lower revenue collection than always been expected. This has raised concerns from stakeholders as to the newly introduced iTax system's effectiveness and efficiency in administering and collecting taxes across the SMEs in the region. Consequently, speculations have been directed to the online tax system processes including registration of tax, filing of tax, payment of tax as well as the state of the online tax system stability as being connected to tax noncompliance by some of the small and medium enterprises in Kericho County. This has triggered the researcher to establish the possible answers to the low revenue collection experiences in KRA agencies concerning the SMEs in the region. The purpose of this study was to determine the relationship between online tax system and tax compliance among small and medium enterprises in Kericho County, Kenya.

II. METHODOLOGY

This study adopted correlational study design. The researcher adopted correlational design as the researcher intents to examine the relationship between the independent variables and the dependent variables. The study was carried out among Small and Medium Enterprises established and registered in Kericho County. The study location was chosen because there was limited information on similar study across the region especially relating to online tax system and tax compliance among SMEs. The target population of this study comprised 102 SME operators registered with the County government of Kericho and who are located in the Central Business District (Trade department, 2018). Since the population size was relatively small and manageable, the study was based on census of all targeted SMEs

Table 1 Target population per sub-county

	Sub-county	**SMEs target population**
1	Bureti	25
2	Belgut	21
3	Ainamoi	20
4	Kipkelion East	17
5	Kipkelion West	17
	Total	102

This study used the primary sources of data. Primary data is data collected directly from firsthand experience. A number of instruments will be used to collect primary. The main tools that will be used are the questionnaires. Primary data was collected using semi-structured questionnaires through the drop and pick method in an effort to conserve time and financial resources as well as to make it easier for analysis as they are in immediate usable form. The semi-structured questionnaires consisted of open and closed ended questions.

To ensure validity of the instruments, the study considered both the face value method and content validity of the questionnaire. To ensure validity of the instrument, face value validity was assessed by having all the questions phrased in line with the study objectives to reduce ambiguity to the lowest limit possible. Content validity was undertaken through a review of the questionnaire by an expert in the study field. The researcher sought support, guidance and advice from the supervisor to assist in reviewing the content validity of the data collection instrument. On the other hand, to establish the reliability of the research instrument, the instrument was be piloted in Bomet County. Test-retest method was used where research instrument was administered to the same respondent twice. After the first administration, a period of time was granted to pass long enough to make the respondents forget giving similar responses by remembering what they gave as answers in the first round. Estimated coefficient of reliability was obtained from correlating the scores on the two sets of measures. Computation of coefficient was achieved with the help of Karl Pearson's product moment coefficient of correlations given as 'r'. The items in the instrument were scored individually and aggregated to get the total score on the whole instrument for both test and retest administration.

Data analysis was conducted by Correlation and regression techniques with aid of Statistical Package for Social Sciences (SPSS) version 23 using the following multiple linear regression model:

$Y = \alpha + \beta 1TR + \beta 2TF + \beta 3TP + \beta 4SS + \varepsilon$

Where: Y = Dependent variable (Tax Compliance)

α = the constant term

β = Regression Coefficients of independent variables

TR= Tax Registration

TF= Tax Filing

TP= Tax Payment

ε= Error Term

III. FINDINGS AND DISCUSSIONS

The researcher sought to determine whether online VAT registration by enterprises has significantly influenced tax compliance especially by SMEs. The results were as tabulated. Table 2 illustrates the correlations between the dependent variable and predictors for this study namely control environment, risk assessment, information and communication system, control activities and monitoring. Values of correlation coefficients (r) range between -1.00 and +1.00 in which a negative value is used indicate a perfect negative relationship while a positive number is used to indicate a perfect positive relationship. Values between 0.8-1.00 are used to indicate a very strong relationship, 0.6-0.8 indicate strong relationship, 0.4-0.6 indicate moderate relationship, 0.2-0.4 indicate weak relationship while 0 .00-0.2 indicate very weak relationship. The test of the relationship between the study variables was at 1% significant level.

Table 2 Correlation Analysis

		Compliance	Registration	Filing	Payment	Stability
Compliance	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	81				
Registration	Pearson Correlation	.978**	1			
	Sig. (2-tailed)	.000				
	N	81	81			
Filing	Pearson Correlation	.918**	.918**	1		
	Sig. (2-tailed)	.000	.000			.
	N	81	81	81		
Payment	Pearson Correlation	.953**	.953**	.955**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	81	81	81	81	
Stability	Pearson Correlation	.911**	.911**	.955**	.978**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	81	81	81	81	81

**. Correlation is significant at the 0.05 level (2-tailed).
(Researcher, 2022)

Table 2 shows that tax compliance has a very strong positive and statistically significant relationship with tax registration (r=0.978; P<0.05). The findings also indicate that tax compliance positively correlate with tax filing. The relationship is very strong and statistically significant (r=0.918; P<0.05). The correlation table also shows a very strong positive and significant relationship between tax compliance and tax payment (r=0.953; P<0.05). As indicated in the correlation analysis table, stability of tax system has a very strong and significant relationship with tax compliance (r=0.911; P<0.05). The results of the correlation indicate that there is a very strong positive and a high significant relationship among the study independent variables. The findings indicate that the highest, very strong positive and highly significant correlation is that between online tax registration and tax compliance (r=0.978; P<0.05). The table also indicates that lowest, very strong positive and highly significant correlation is that between system stability and tax compliance (r=0.911; P<0.05).

As per the research questions on the relationship between online tax system and tax compliance, the study findings based on correlation analysis are that online tax registration, online tax filing, online tax payment as well as online system stability have very strong, positive and significant relationship with tax compliance (r=0.978; P<0.05, r=0.918; P<0.05, r=0.953; P<0.05 and r=0.911; P<0.05) respectively. The study's correlation analysis findings agree with the findings of Olatunji and Ayodele (2017), that online tax registration, online tax filing and online tax remittance affected productivity of tax. This study finding agrees with the findings by Munyoro (2017) that most of the taxpayers had registered for VAT and income tax. Through the scholar's study, taxpayers gave the benefits of iTax as limited time required to file tax returns, simple to use and less costs incurred.

The study's correlation analysis findings also concur with the findings by Bett, Tanui and Osodo (2017) which showed that tax return processing was significantly contributed by online taxpayer registration to KRA. The findings also are in tandem with the findings by Tarmidi, Fitria and Purwaningsih (2017) which showed that implementation of online tax application significantly and positively affected tax compliance. The findings are in contrary to the findings by Gwaro, Maina and Kwasira (2016). According to Gwaro, Maina and Kwasira (2016), online tax system stability and online tax filing had no significant relationship with tax compliance. However, the findings support the findings by Monica, Makokha and Namusonge, (2017) that electronic tax filing and electronic tax payment influenced compliance by taxpayers.

The study findings also support the findings of Tambun and Kopong (2017). Tambun and Kopong (2017) findings revealed that e-filing influenced greatly individual taxpayer compliance. The findings also support Bett and Omondi (2017) which indicate that electronic tax payment, online tax return processing, online taxpayer registration, online compliance and monitoring activities contributed significantly on revenue collection

IV. CONCLUSIONS AND RECOMMENDATIONS

Basing on the findings the conclusion with regards to the first objective is that online tax registration has a positive, strong and significant relationship with tax compliance. This indicates that there is a further need to pool all SMEs to register themselves through online platform to ensure that compliance is achieved. Online tax filing also has a positive, strong and significant relationship with tax compliance. The implication is that the SMEs operators in partnership with KRA should continue to encourage those traders who have not enrolled to the online services to do so as compliance will be boosted further.

There was a positive and significant relationship between online tax payment and tax compliance. This calls for the SMEs operators to embrace payment of taxes through online as this leads to increased compliance. This method is convenient as there is no need to travel to banks. Online system stability on the contrary, has a negative and significant effect on tax compliance. This indicates that when the online systems are not stable like they are facing internet strength variations, it is very easy for the taxpayers not to comply. This calls for the KRA agencies to ensure strong online tax system which will ensure consistent strength on matters internet and capability.

On the basis of the study findings and conclusions which have been made, the researcher recommends the following measures to be implemented by both SMEs and the KRA agency. The KRA agency should continue to strengthen the need for all SMEs to register their tax obligations online. This will open an easy way to file and pay tax online therefore boosting tax compliance. KRA agency should also encourage those taxpayers who have registered for tax obligations to file returns online in due dates so as to minimize cases where taxpayers go beyond due dates without having filed their returns. This will help maintain tax compliance among taxpayers. The KRA agency also needs to enlighten the taxpayers on the advantages of online tax payments so that the taxpayers get to know how important it is for one to embrace online tax payment to enable them avoid unnecessary penalties and interests.. The KRA agency should ensure that their i-Tax system should be strong to enable large number of taxpayers to file and pay for their tax obligations even on due dates so that all taxpayers are spared from not meeting deadlines on matters tax filing. This will increase compliance. The SMEs sector in Kenya continues to experience new changes that are imposed by KRA. These changes are deemed to influence the way SMEs comply with the KRA requirements. The study suggests that in future, the researchers may consider undertaking research on the effect of tax reforms on tax compliance among SMEs.

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AUTHORS

First Author – Geoffrey Yegon Kipngetich, qualifications, associated institute (if any) and email address.
Second Author – Prof. Isaac K. Naibei, University of Kabianga inaibei@kabianga.ac.ke
Third Author – Dr. Lydia Langat, Lydia Langat, Lecturer, Univerity of Kabianga llangat@kabianga.ac.ke

Correspondence Author – Prof. Isaac K. Naibei, University of Kabianga inaibei@kabianga.ac.ke. +254732954000 .