TAXPAYERS’ ATTITUDES AND TAX COMPLIANCE BEHAVIOUR IN KENYA

How the Taxpayers’ Attitudes Influence Compliance Behavior among SMEs Business Income Earners in Kerugoya Town, Kirinyaga District

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Abstract
The major purposes of this study were to document the taxpayers’ attitudes and tax compliance behaviour in Kenya, the case of SMEs business income earners in Kerugoya town, Kirinyaga district. and also to identify taxpayers’ attitudes towards tax systems, to identify factors which influence taxpayers’ attitudes and to establish relationship between attitudes and tax compliance behaviour among SMEs business income earners in Kerugoya town, Kirinyaga district. This research was a survey involving business income earners among small and medium size enterprises in Kerugoya town, in Kirinyaga district. Data was collected from two hundred and sixty (260) small and medium size enterprises taxpayers, analyzed using descriptive statistics, and summarized and presented in the form of proportions, tables and percentages. The following conclusions were also arrived at: First, most taxpayers view the Kenyan tax system as unfair. This was because most respondents differed that they are paying a fair share of tax; that their neighbours, friends etc are reporting and paying tax honestly; that tax laws are easy to understand i.e. calculation of tax filing and paying dates. They were also indifferent with the paying of tax fines and penalties: the aggressive tax enforcement efforts by KRA e.g. ensuring tax audits and prosecutions of tax evaders take place. Secondly, most taxpayers have complied with the possession of PINs; the taxpayers in the district have partially complied in terms of keeping up to date records and books of accounts. This is because most of them keep Cash receipts, Cashbook, Balance sheet, Invoices, and Profit and Loss accounts. But other records like the trial balance; Journals and Ledgers are not up to date. Thirdly, the taxpayer file tax returns on or before 30th June, a sign that they actually comply with the dead lines given by KRA, which they file themselves instead of doing it using the Accountant/ tax advisor. Fourthly, most taxpayers in the district have never paid penalties. Fifthly, some of the factors for tax non-compliance were found to be: the inability to understand tax laws, a feeling that they are not paying a fair share of tax, positive peer attitude and Rewarding. Lastly, testing the hypothesis of the study that “Taxpayers’ attitudes do not encourage tax compliance in Kenya”, it was found that there is a very strong relationship between the taxpayers’ attitudes and tax compliance in Kenya i.e. taxpayers’ attitudes encourages tax compliance in Kenya since the correlation of 0.846 ≥ 1.

Keywords: Taxpayers’ Attitude, Tax Compliance Behaviour, SMEs
1. Introduction

1.1 General Background

Taxpayers’ behavior towards tax system has evoked great attention among many Revenue Authorities in the World especially in Developed Countries. However, it is debatable on what has been done towards the study of taxpayers behavior towards tax system in developing countries as they concentrate more in studies which would increase their budgets “bottom-line” in terms of huge revenue collection and enforcement efforts at the expense of studies on taxpayers behavior which would make increase in this tax revenue to be realized and enforcement efforts work! Perhaps the less developed countries are not to blame as they run on “budget deficits” hence, scarce resources to see through such studies which are perceived as adding no direct value to revenue collection.

Empirical evidence on the ground shows there has been hostility between the taxpayers and tax collectors on issue relating to tax compliance- how about tax evasion cases reported daily in our local newspaper (Daily Nation, July 7, 2006, pg 3) and outward resistance from taxpayers for example the recent protest by taxpayers over implementation of Electronic Tax Registers.

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Hostility towards tax compliance date back to the History of Taxation. “Taxes are considered a problem by everyone. Not surprising, taxation problems date back to the earliest recorded history” (Director, Taxworld Organization, April 7, 1999). According to the Director, Taxworld Organization, (1999), during the Roman empire, in 60A.D, Boadecia queen of East Anglia led a revolt that can be attributed to corrupt tax; in Great Britain, the 100 years war (1337-1453) between England and France was renewed in 1369 by Edward, The Black Prince and in Post-Revolution America, Tax Act of 1864 was challenged several times.

Hostile taxpayers behavior implies that given a chance taxpayers would not comply with tax laws. Perhaps, understanding the taxpayers’ behavior in terms of factors which influence their attitude towards tax compliance and how to influence the very factors would be a solution to this “jigsaw puzzle”. Hence, one of the purpose of this research is to bring attitudes and these factors to light in relation to the Kenyan taxpayers and show how they affect tax compliance. In explaining taxpayers’ compliance behaviour, that is, the reasons why taxpayers comply and do not comply, there are broadly two classes of theories – economic based theories, which emphasize incentives, and psychology-based theories which emphasize attitude (Trivedi & Shehata, 2005).

Economic theories of tax compliance are also referred to as deterrence theory. According to Trivedi and Shehata (2005), economic theories suggest that taxpayers “play the audit lottery,” i.e. they make calculations of the economic consequences of different compliant alternative, such as whether or not to evade tax; the probability of detection and consequences thereof, and choose the alternative which maximizes their expected after tax-return/profit (possibly after adjustment for the desired level of risk). The theories suggest that taxpayers are amoral utility maximizers hence,economic theories emphasize increased audits and penalties as a solution to compliance problems. Economic based studies suggest that taxpayers’ behaviour is influenced by economic motives such as profit maximization and probability of detection (Trivedi & Shehata, 2005), underreporting (Erard & Ho, 2002; Cobham, 2005), business income taxpayers operating in informal economy (Etchberry, 1992) among many factors.

Psychology theories of tax compliance assume that psychological factors – including moral and ethical concerns are also important to taxpayers and so taxpayers may comply even where the risk of audit is low. Psychology theories de-emphasize audits and penalties and instead focus on changing individual attitudes towards tax system.

Trivedi and Shehata (2005) concluded that some taxpayers’ behaviour may follow economic theories while others may follow the psychological theories and a mixture of the two is also possible.

1.2 The Concept of Tax- Compliance Behaviour & Taxpayers’ Attitudes

Tax compliance is a complex term to define. According to Brown and Mazur (2003), tax compliance is multi-faceted measure and theoretically, it can be defined by considering three distinct types of compliance such as payment compliance, filing compliance, and reporting compliance. Organisation for Economic Cooperation and Development (2001) advocates dividing compliance into categories in considering definitions of tax compliance.

These categories are administrative compliance and technical compliance where the former refers to complying with administrative rules of lodging and paying otherwise referred to as reporting compliance, procedural compliance or regulatory compliance and the latter refer to complying with technical
requirements of the tax laws in calculating taxes or provisions of the tax laws in paying the share of the tax.

Theoretically, views of the taxpayers and tax collectors are that tax compliance means adhering to the tax laws, which are different from one country to another. The goal of tax administration is to foster voluntary tax compliance (Silvani, 1992) and hence reduce tax gap (difference between taxes paid and owed for all taxes and all taxpayers) and “compliance gap.” Tax compliance, according to Cobham (2005), is a problem to many countries as measured by tax to GDP ratio although it has been improving for many countries. For example, its one-third of GDP in rich countries; Latin America and the Caribbean - 17% of GDP and low-income countries (in Sub Saharan Africa) showed less than 15% to GDP (the recommended rate). It remains a big challenge to low income countries. This has promoted radical tax reforms in countries like Bolivia, Uruguay, Colombia, Jamaica and Spain with notable success (Bird & De Jantscher, 1992).

According to Ajzen’s (1991) Theory of Planned Behaviour, attitude relates to one’s own personal views about a behaviour. Attitude may also be defined as positive or negative views of an “attitude object”; i.e. a person, behaviour or event.

In relation to taxation, taxpayers’ attitudes may be defined as positive or negative views of a tax compliance behaviour. The outcome of positive views is tax compliance and negative views is tax non compliance. These views may be explained by Psychology-based theories which reveal that taxpayers’ attitude may be influenced by the following factors which eventually influence taxpayers behavior.

Taxpayers perceptions of the tax system and Revenue Authority (Ambrecht, 1998); peer attitude / subject norm (Toumi, Hasseldine, Hite, James & Conner, 2000); taxpayers’ understanding of a tax system / tax laws (Silvani, 1992; Le Baube, 1992); motivation such as rewards (Feld, Frey & Torgler, 2006) and punishment such as penalties (Allingham & Sandmo, 1972); cost of compliance (Slérod, 1992; Le Baube, 1992); enforcement efforts such as audit; probability of detection (Allingham & Sandmo); difference across - culture; perceived behavioral control (Trivedi & Shehata) and Protestant Work Ethics (PWE) (Furnharn, 1983); ethics / morality of the taxpayer (Trivedi & Shehata) and tax collector; equity of the tax systems (Trivedi & Shehata); image of the government based on whether it is achieving the tax objectives under prescribed principles of taxation (Le Baube); Demographic factors such as sex, age, education and size of income (Jackson & Milliron, 1986; Murphy, 2004) and Use of informants (Le Baube).

1.3 Tax Compliance in Kenya
Kenya is ranked among low-income countries or low-compliance countries with hard task of ensuring efficient and effective tax administration. In order to ensure tax compliance, hence raising more revenue. Administration of tax in Kenya is by Kenya Revenue Authority established through an Act of Parliament on July 1st 1995 (Cap 469). “Kenya Revenue Authority is supposed to promote compliance with Kenya’s tax ensure responsible enforcement by highly motivated and professional staff thereby maximizing revenue collection at least possible cost for the social-economic well being of Kenyans” (CIAT, 2006).

The purpose of Kenya Revenue Authority is assessment, collection, administration and enforcement of tax laws with professionalism governed by integrity and fairness (CIAT). To achieve this purpose, KRA is divided into regions such as North Region, Rift Valley Region, Western Region, Southern Region and Central Region and departments such as Customs Services Department, Domestic Services Department, Road Transport Department and Support Services Department.

KRA administers different types of taxes under different Laws (Acts) such as Income Tax, Value Added Tax, Custom duties and Excise Tax among many others. Hence, KRA is supposed to ensure taxpayers comply with the respective tax laws.

1.4 Statement of the Problem
In Kenya, taxpayers exhibit varying levels of tax compliance. Apart from unpublished study by Simiyu (2003) whose objective was to identify factors influencing taxpayers’ voluntary compliance among local authorities, the researcher was not aware of any other study that has been carried out to establish how taxpayers’ attitudes influence tax compliance behavior. The challenge of lack of knowledge of tax Compliance behaviour towards a tax system is serious on the grounds that it may have played part in the Ksh. 3.4 billion short fall in 2005/2006 (Daily Nation, August 5, 2006) even after aggressive marketing by KRA in the print and electronic media.

The extent of the impact of attitudes and attitude change on tax compliance behaviour was not well understood and studies in this area have not been carried in Kenya. Therefore addressing this knowledge gap was the primary purpose of this study. It was for this reason that this study attempted
to find out how taxpayers’ attitudes influence tax compliance behavior in Kenya.

The study tried to answer the following questions:

(i) What was the level of tax compliance among SMEs business income earners in Kerugoya town, Kirinyaga district?

(ii) How the taxpayers’ attitudes and the factors influencing it influenced taxpayers’ compliance behavior among SMEs business income earners in Kerugoya town, Kirinyaga district?

It was equally hypothesized that taxpayers’ attitudes do not encourage tax compliance in Kenya.

2.0 Research Strategy

This research was a survey involving business income earners among small and medium size enterprises in Kerugoya town, in Kirinyaga district. This enabled generalization of the research findings on how the taxpayers’ positive attitudes influence business income tax compliance in Kirinyaga and by extension in Kenya.

The Population of the study included small and medium size enterprises taxpayers numbering 800 issued with Kerugoya Municipal Trading Licence for the year 2005 within Kerugoya town, in Kirinyaga District. The sample size was 260 small and medium size enterprises taxpayers. The sample size was determined using table for determining sample size from a given population by Krejcie and Morgan (1970). Systematic random sampling was used. The study was carried over a period of one year January 2005 to December 2005. One year period was assumed reasonable to demonstrate latest taxpayers’ attitude influences on tax compliance.

The study mostly used the primary data of taxpayers from 1st January 2005 to 31st December 2005. This data was collected using structured questionnaire, which was delivered directly to the individuals and collected within one week. It consisted of closed-ended matrix and contingency questions. Likert scale comprising of 5 responses was used with matrix questions. To protect the confidentiality of the individuals, the questionnaire form only bore the serial number. The questionnaire was divided in to the following parts: - Part 1- Demographic Profile: This included gender, age, marital status, business experience and literacy level; Part 2- Attitudes and attitudinal factors: This included considering positive and negative attitudes and factors affecting attitudes such as justice in a tax system, peer attitude, understanding of tax laws, paying tax fines and penalties, use of informants by KRA, rewarding taxpayers, degree of being detected for non payment of tax, degree of risk aversion, positive government image, harassment from KRA, profit maximization and demographic variables such as gender, age, marital status, business experience and literacy level. Part 3 -Tax compliance and Tax non-compliance status: This included considering compliance measures such as registering for PIN, keeping the proper books of accounts, filing of return, accurate determination of taxable income, determination of accurate tax liability, paying of tax dues on the due dates, payment of fines and penalties for over- due taxes, allowing of audit by tax collectors and use of tax advisors such as accountants; Part 4 – Reasons for tax compliance and non-compliance status.

Chi-square (x²) test at 0.05 level of significance was be performed in order to reject the hypothesis that taxpayers’ positive attitudes do not influence tax compliance in Kenya and accept alternative hypothesis that taxpayers’ attitudes influence tax compliance in Kenya. Strength of the relationship between dependent and independent variables will be tested using correlation – co efficient (r). The data was analyzed using procedures within Statistical Package for Social Sciences (SPSS).

3.0 Data Analysis, Findings and Discussions

This section covers data analysis and findings of the research. This research paper documents the taxpayers’ attitudes and tax compliance behaviour in Kenya, the case of SMEs business income earners in Kerugoya town, Kirinyaga district. Data was collected from two hundred and sixty (260) small and medium size enterprises taxpayers, in Kerugoya town, in Kirinyaga district. Of the 260 small and medium size enterprises taxpayers sampled, a hundred and fifty (150) responded, a reasonably high response rate of 58 percent.

3.1 Business Profile & Background Information

The Kenyan labour market is emphasizing gender equity in its employment policy and representativeness in decision-making. From research data, out of those who were responded, 62% were male employees as 38% were female employees. This is a very poor distribution in gender among the taxpayers in the district.

Age is an important factor in the taxpayer’s productive servicing period. It is also used in laying-off the unproductive staff or the retardant staff. From the research data, 42% of the respondents were between 30-39 years, 33% of the respondents were between 20-29 years age bracket19% of the
respondents were between 40-49 years, as 7% of the respondents were over 50 years. This is an indication that most employees in this category are at their productive ages.

The number of years one has been in business has an influence on his/her taxpayer’s experience and level of paying taxes. For those who done business for long it implies they are used with the routine practices of paying taxes to KRA. It also determines whether their attitude to enjoy the duty service their taxes is positive or not. From research data, 43% of the respondents indicated that they have a 1-5 years experience in business, 37% indicated that they have 6-10 years business experience, as 19% indicated they have over 10 years experience. This is an indication that most taxpayers in Kerugoya town have very little business experience, considering the remoteness.

The ability to read and write influences one’s ability understand and interpret the tax laws. Proper recording keeping requires fluency in reading and writing. From research data, 98% indicated they have the knowledge to write and read, as 2% indicated that they don’t have such fluency. This is a clear indication that the taxpayers can understand, interpret the tax laws, and at the same time keep correct books of account and records. The challenge of lack of knowledge of tax compliance behaviour towards a tax system is serious on the grounds that it may have played part short falls in tax collection, even after aggressive marketing by KRA in the print and electronic media.

### 3.2 The Attitudes and Attitudinal Factors on Business Tax System in Kenya

The extent of the impact of attitudes and attitude change on tax compliance behaviour is not well understood in Kenya. This has led to different perspectives on the fairness of the Kenyan tax system. The respondents were asked to raise their views on the tax system in Kenya and from the research data, 66% of the respondents indicated that the Kenyan tax system is unfair, as 34% indicated that it is a fair system.

Tax compliance assumes that psychological factors – including moral and ethical concerns are important to taxpayers and so taxpayers may comply even where the risk of audit is low. Psychology theories de-emphasize audits and penalties and instead focus on changing individual attitudes towards tax system. The respondents were asked to indicate their extent of agreement or disagreement with some statements relating to some of the factors that influence ones’ view on business tax system in Kenya. This was on a likert scale, where Strongly Disagree =1; Disagree=2; Uncertain = 3; Agree=4, as Strongly Agree =5; and the results are in table 3.1 below.

<table>
<thead>
<tr>
<th>Factors</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>A feeling that you are paying a fair share of tax</td>
<td>2.4533</td>
<td>0.26165</td>
</tr>
<tr>
<td>Neighbours, friends etc are reporting and paying tax honestly</td>
<td>2.4161</td>
<td>0.15138</td>
</tr>
<tr>
<td>Tax laws are easy to understand i.e. calculation of tax filing and paying dates</td>
<td>2.2192</td>
<td>0.06669</td>
</tr>
<tr>
<td>High business profit by operating illegal business, underreporting of profits etc</td>
<td>2.9257</td>
<td>0.28355</td>
</tr>
<tr>
<td>Giving rewards to taxpayers</td>
<td>2.8298</td>
<td>0.20094</td>
</tr>
<tr>
<td>Use of informants by KRA to report tax evaders</td>
<td>2.9932</td>
<td>0.14167</td>
</tr>
<tr>
<td>Paying tax fines and penalties</td>
<td>3.4014</td>
<td>0.18009</td>
</tr>
<tr>
<td>Aggressive tax enforcement efforts by KRA e.g. ensuring tax audits and prosecutions of tax evaders take place</td>
<td>3.4430</td>
<td>0.13532</td>
</tr>
<tr>
<td>High degree of being detected for non payment of tax</td>
<td>3.2867</td>
<td>0.29706</td>
</tr>
<tr>
<td>Fear of tax audits and prosecution</td>
<td>3.4085</td>
<td>0.26690</td>
</tr>
<tr>
<td>Feeling tax is an obligation and believing in no corruption</td>
<td>3.4430</td>
<td>0.34758</td>
</tr>
<tr>
<td>Government is achieving its tax objectives and is fighting corruption</td>
<td>3.0201</td>
<td>0.38266</td>
</tr>
<tr>
<td>Harassments by KRA</td>
<td>3.4027</td>
<td>0.28357</td>
</tr>
</tbody>
</table>

Source: Research Data

From the results in table 3.1 most respondents disagreed (Mean=2, and the std deviation is insignificant) that they are paying a fair share of tax; that their neighbours, friends etc are reporting and paying tax honestly; that tax laws are easy to understand i.e. calculation of tax filing and paying dates; that they make high business profit by operating illegal business, underreporting of profits etc; that taxpayers are given rewards, and that there is use of informants by KRA to report tax evaders.

Most respondents were also indifferent (Mean=3, and the std deviation is insignificant) with the paying of tax fines and penalties: the aggressive tax enforcement efforts by KRA e.g. ensuring tax audits and prosecutions of tax evaders take place; the high degree of being detected for non payment of tax; the
fear of tax audits and prosecution; the feeling that tax is an obligation and believing in no corruption; that the government is achieving its tax objectives and is fighting corruption; and lastly indifferent with the harassments by KRA.

The above display the extent of the impact of attitudes and attitude change on tax compliance behaviour, which the respondents feel, is unfair.

3.3 Tax Compliance and Tax Non-Compliance Status

In Kenya the tax compliance requirements according to the income tax laws relating to businesses are: Keeping of up to date books of account by businessmen, acquiring of Personal Identification Numbers (PIN) by all potential taxpayers, determining the taxable income according to the stipulated rules and regulation, accurate determination of tax liability, filing of returns on income by the prescribed date, paying of tax dues by the prescribed date, payment of fines and penalties for overdue taxes and allowing of audit by tax collectors if deemed necessary.

The respondents were asked to give information relating to the above compliance requirements to enable and facilitate the determination of the levels of tax compliance and how taxpayers’ attitude influence tax compliance in Kenya.

On the possession of a personal identification number (PIN): The respondents were asked to indicate whether they had a Personal Identification Number (PIN), and from the research data 53% of the respondents indicated that they have this requirement, as 47% indicated they don’t have. This distribution may be because of the lack of understanding of the Kenyan tax law, which the respondents perceive to be very unfair. Thus they have complied.

On keeping up to date transaction records and books of accounts, the respondents were asked to whether they keep up to date transaction records and books of accounts i.e. cash receipts, invoices, journals, ledgers, cash books, trial balances, profit and loss accounts, and balance sheet. From the research data, the respondents indicated that they have partially complied in terms of keeping up to date records and books of accounts. This is because most of them (more than 40%) keep Cash receipts, Cashbook, Balance sheet, Invoices, and Profit and Loss accounts. But other records like the trial balance, Journals and Ledgers as requirements for tax compliance are not up to date. Generally, there is some sort of non-compliance in keeping up to date records and books of accounts.

On whether the taxpayers file tax returns or not; when and who files them, the respondents were asked to indicate whether they file tax returns, when and who files them and from the research data, 51% of the respondents indicated that they file tax returns, a sign that they actually comply. The respondents were also asked as to when they filed their tax returns in the year 2005, and from the research data, 74% of the respondents indicated that they had filed their tax returns on or before 30th June, as 26% indicated that they did it after 30th June. Thus they indeed comply with the dead lines given by KRA. Also from the research data, 73% indicated that they file the tax returns themselves, as 27% indicated that it was done through the Accountant/ tax advisor. There is some compliance too.

Paying taxes is also one of the requirements of tax compliance in Kenya. The respondents were asked whether they pay taxes or not, and from the research data, 79% of the respondents indicated that they pay taxes, a sign that they actually comply.

The respondents were also asked as to when they paid their taxes in the year 2005, and from the research data, 86% of the respondents indicated that they had paid their taxes on or before 30th June, as 14% indicated that they did it after 30th June. Thus other than filing their tax returns, they also comply with the dead lines given by KRA. Also from the research data, 82% indicated that they pay the taxes themselves, as 18% indicated that it was done through the Accountant/ tax advisor. There is high compliance here too.

The respondents were asked to indicate the extent to which they agreed or disagreed with the factors that influence their compliance with business tax law requirements. This was on a 5-likert scale, where Strongly disagree = (1); Disagree = (2); Uncertain (3); Agree = (4); Strongly Agree = (5). On the scale 1 to 2, it is assumed as non-compliance; as from 4 to 5, is taken as compliance; as 3 is between compliance and non-compliance, and the results are in table 3.2.

### Table 3.2 Reasons for Tax Compliance and Tax Non-Compliance

<table>
<thead>
<tr>
<th>Factors</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easy understanding of tax laws i.e. rates of tax; filing and paying dates etc.</td>
<td>2.4085</td>
<td>1.23285</td>
</tr>
<tr>
<td>Feeling of justice with tax system i.e. paying a fair share of tax</td>
<td>2.5986</td>
<td>1.29625</td>
</tr>
<tr>
<td>Positive peer attitude i.e. a belief that your neighbours are</td>
<td>2.5338</td>
<td>1.19190</td>
</tr>
</tbody>
</table>
The taxpayers’ attitude may be influenced by the following factors, which eventually influence taxpayer’s behaviour. Some of those factors which influence tax compliance behavior and tax non-compliance behavior are many and are differ from one country to another and also from one individual to another. They include taxpayers perceptions of the tax system and Revenue Authority (Ambrecht, 1998); peer attitude / subject norm (Toumi, Hasseldine, Hite, James & Conner, 2000); taxpayers’ understanding of a tax system / tax laws (Silvani, 1992; Le Baube, 1992); motivation such as rewards (Feld, Frey & Torgler, 2006) and punishment such as penalties (Allingham & Sandmo, 1972); cost of compliance (Slemrod, 1992; Le Baube, 1992); enforcement efforts such as audit; probability of detection; difference across - culture; perceived behavioral control and Protestant Work Ethics (PWE) (Furnharn, 1983); ethics / morality of the taxpayer and tax collector; equity of the tax systems; Demographic factors such as sex, age, education and size of income (Murphy, 2004) and Use of informants.

From table 3.2, most respondents disagreed (Mean ≤ 2, and the std deviation is insignificant) i.e. the factors that are for tax non-compliance are: the ability to understand tax laws i.e. rates of tax, filing and paying dates etc., a feeling that they are not paying a fair share of tax, positive peer attitude i.e. a belief that your neighbours are reporting and paying tax honestly, and Rewarding taxpayers i.e. giving a trophy for being best tax- payer, and Motive for low profits.

Most respondents were also indifferent (Mean=3, and the std deviation is insignificant) with the following factors. This means that that these factors depending on how they are applied they can facilitate compliance and non-compliance. They include: avoiding of paying tax fines and penalties; the use of informants by KRA i.e. report tax evaders; aggressive enforcement efforts by KRA i.e. ensuring tax audits and prosecutions take place payment of fines and penalties; high degree of being detected for no-payment of tax; high degree of risk aversion i.e. fear of tax audits; ethics and mobility i.e. a feeling that tax is an obligation and believing in no corruption; Positive government image i.e. government is fighting corruption and is achieving tax objectives & harassment from KRA.

### 3.4 Repercussions of Tax Non-Compliance

The payment of fines and penalties are for overdue taxes. The respondents were asked whether they have ever paid tax fines and penalties, and from the research data, 23% of the respondents indicated that they have ever paid tax fines and penalties, as 77% indicated that they have never paid any tax fines and penalties.

There arises need to allow audit by tax collectors if deemed necessary, especially if they suspect that there is some kind of some non-compliance. The respondents were also asked whether they received visits from KRA in the year 2005, from the research data, 16% of the respondents indicated that they received such visits, as 84% indicated they didn’t. This is high compliance from the respondents.

The respondents were also asked whether they were you assessed by KRA in the year 2005 because of no-payment of tax or no-filling of income tax returns for the year 2004, and from the research data, 10% indicated that they were assessed by KRA in the year 2005 because of no-payment of tax or no-filling of income tax returns for the year 2004, as 90% indicated they were not. This is high compliance too.

### 3.5 The Relationship between the Taxpayers’ Attitudes and Tax Compliance in Kenya

In order to test the hypothesis of the study that “Taxpayers’ attitudes do not encourage tax
compliance in Kenya”, chi square, is a rough estimate of confidence was used to accept weaker, less accurate data as input than parametric tests (like t-tests and analysis of variance) whose limitations are also its strengths; because chi square is more 'forgiving' in the data it will accept, it can be used in a wide variety of contexts. Taking the means of the attitudinal factors and tax compliance table 3.3a displays the means.

**Table 3.3a: Mean for Attitudinal Factors and Compliance**

<table>
<thead>
<tr>
<th>Factors</th>
<th>Attitude Mean</th>
<th>Compliance Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>A feeling that you are paying a fair share of tax</td>
<td>2.4533</td>
<td>2.5986</td>
</tr>
<tr>
<td>Neighbours, friends etc are reporting and paying tax honestly</td>
<td>2.4161</td>
<td>2.5338</td>
</tr>
<tr>
<td>Tax laws are easy to understand i.e. calculation of tax filing and paying dates</td>
<td>2.2192</td>
<td>2.4085</td>
</tr>
<tr>
<td>Paying tax fines and penalties</td>
<td>3.4014</td>
<td>3.3592</td>
</tr>
<tr>
<td>Giving rewards to taxpayers</td>
<td>2.8298</td>
<td>2.8750</td>
</tr>
<tr>
<td>Use of informants by KRA to report tax evaders</td>
<td>2.9932</td>
<td>3.0833</td>
</tr>
<tr>
<td>Aggressive tax enforcement efforts by KRA e.g. ensuring tax audits and prosecutions of tax evaders take place</td>
<td>3.4430</td>
<td>3.4082</td>
</tr>
<tr>
<td>High degree of being detected for non payment of tax</td>
<td>3.2867</td>
<td>3.4336</td>
</tr>
<tr>
<td>Fear of tax audits and prosecution</td>
<td>3.4085</td>
<td>3.3958</td>
</tr>
<tr>
<td>Feeling tax is an obligation and believing in no corruption</td>
<td>3.4430</td>
<td>3.4759</td>
</tr>
<tr>
<td>Government is achieving its tax objectives and is fighting corruption</td>
<td>3.0201</td>
<td>3.0816</td>
</tr>
<tr>
<td>Harassments by KRA</td>
<td>3.4027</td>
<td>3.5105</td>
</tr>
<tr>
<td>High business profit by operating illegal business, underreporting of profits etc</td>
<td>2.9257</td>
<td>2.8392</td>
</tr>
</tbody>
</table>

Source: Research Data

**Table 3.3b: Correlation between Attitude and Compliance**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Attitude</th>
<th>Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attitude</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Compliance</td>
<td>0.984133</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Research Data

Also from the results in table 4.13c, all the 12 factors in the analysis indicated as “a” i.e. 100% have expected frequencies less than 5 with the minimum expected frequency 1.1. Thus all the factors that influence the taxpayers’ attitudes, equally affect the taxpayers’ compliance with the tax requirement i.e. taxpayers’ attitudes encourages tax compliance in Kenya.

### 4.0 Conclusions and Recommendations

#### 4.1 Conclusions

Based on the results from data analysis and findings of the research from chapter four, one can safely conclude the following:

First, on the attitudes and attitudinal factors, it was found that most taxpayers view the Kenyan tax system as unfair. This was because most respondents differed that they are paying a fair share of tax; that their neighbours, friends etc are reporting and paying tax honestly; that tax laws are easy to understand i.e. calculation of tax filing and paying dates; that they make high business profit by operating illegal business, underreporting of profits etc; that taxpayers are given rewards, and that there is use of informants by KRA to report tax evaders. They were also indifferent with the paying of tax fines and penalties: the aggressive tax enforcement efforts by KRA e.g. ensuring tax audits and prosecutions of tax evaders take place; the high degree of being detected for non payment of tax; the fear of tax audits and prosecution; the feeling that tax is an obligation and believing in no corruption; that the government is achieving its tax objectives and is fighting corruption; and lastly indifferent with the harassments by KRA.

Secondly, on tax compliance and tax non-compliance status, with respect to providing information relating to compliance requirements to enable and facilitate the determination of the levels of tax compliance and how taxpayers’ attitude influence tax compliance in Kenya; it was found that most taxpayers have complied with the possession of PINs; On keeping up to date transaction records and books of accounts, the respondents were asked to whether they keep up to
date transaction records and books of accounts i.e. cash receipts, invoices, journals, ledgers, cash books, trial balances, profit and loss accounts, and balance sheet, It was found that the taxpayers in the district have partially complied in terms of keeping up to date records and books of accounts. This is because most of them keep Cash receipts, Cashbook, Balance sheet, Invoices, and Profit and Loss accounts. But other records like the trial balance; Journals and Ledgers are not up to date.

Thirdly, on whether the taxpayers file tax returns or not; when and who files them, the taxpayer file tax returns on or before 30th June, a sign that they actually comply with the dead lines given by KRA, which they file themselves instead of doing it using the Accountant/ tax advisor. Paying taxes is also one of the requirements of tax compliance in Kenya; the taxpayers also pay taxes on or before 30th June, by themselves, with a very high compliance.

Fourthly, on the payment of fines and penalties for overdue taxes, most taxpayers in the district have never paid them, an indication that they actually comply. The taxpayers have never received any audits by tax collectors since it was not deemed necessary, as they have never been suspected of any kind of some non-compliance. Most of them have never received any visits from KRA in the year 2005. Thus most taxpayers were never been assessed by KRA in the year 2005 because of no-payment of tax or non-filling of income tax returns for the year 2004.

Fifthly, on some of the reasons for tax compliance and tax non-compliance, some of the factors for tax non-compliance were found to be: the inability to understand tax laws i.e. rates of tax, filing and paying dates etc., a feeling that they are not paying a fair share of tax, positive peer attitude i.e. a belief that your neighbours are reporting and paying tax honestly, and Rewarding taxpayers i.e. giving a trophy for being best tax- payer, and Motive for low profits. Some of the factors depending on how they are applied they can facilitate compliance and non-compliance included: avoiding of paying tax fines and penalties; the use of informants by KRA i.e. reporting tax evaders, aggressive enforcement efforts by KRA i.e. ensuring tax audits and prosecutions take place payment of fines and penalties; high degree of being detected for no-payment of tax; high degree of risk aversion i.e. fear of tax audits; ethics and mobility i.e. a feeling that tax is an obligation and believing in no corruption; Positive government image i.e. government is fighting corruption and is achieving tax objectives & harassment from KRA.

Lastly on the relationship between the taxpayers’ attitudes and tax compliance in Kenya, in order to test the hypothesis of the study that “Taxpayers’ attitudes do not encourage tax compliance in Kenya”, chi-square, a rough estimate of confidence was used. It was found that there is a very strong relationship between the taxpayers’ attitudes and tax compliance in Kenya i.e. taxpayers’ attitudes encourages tax compliance in Kenya since the correlation of 0.846 $\geq 1$. And all the that influence the taxpayers’ attitudes, equally affect the taxpayers’ compliance with the tax requirement i.e. taxpayers’ attitudes encourages tax compliance in Kenya

4.2 Recommendations for Improvement

The following recommendations are also worth making to KRA: It should champion its literacy campaigns to improve the taxpayers’ ability to understand tax laws i.e. rates of tax, filing and paying dates etc., They should also make the taxpayer feel and understand that they are not paying unfair share of tax, They should work to improve peer attitude i.e. a belief that neighbours are reporting and paying tax honestly, and Rewarding taxpayers i.e. giving a trophy for being best tax- payer

4.3 Suggestion for Further Research

Areas of further research that were identified include a similar study on the concepts of taxpayers’ attitudes towards tax systems, the factors which influence taxpayers’ attitudes and the relationship between attitudes and tax compliance behaviour among SMEs business income earners which has encountered a lot of debate in every economy and regional subdivisions. The researcher recommends a study to be conducted, which will evaluate the above concepts in the other 42 districts in Kenya to improve on the revenue collection so as to build our developing economy.

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