

**INFLUENCE OF I-TAX ON PERFORMANCE OF TAX RETURN
COMPLIANCE AMONG SMALL AND MEDIUM ENTERPRISES, CASE
OF NAKURU CITY CENTRAL BUSINESS DISTRICT, KENYA**

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DECLARATION AND APPROVAL

This project is entirely original work of mine that hasn't been submitted for an award or a degree at another university.



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Approval

I confirm that the candidate under my supervision carried out this project



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DEDICATION

I dedicate this research project to the Almighty God , my Dad Abdirahim Bore , lovely wife and my friend Mrs. FardosaAhmed Mohamed for their support.



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ABSTRACT

The purpose of this research was to determine how the I Tax affected the taxpayers in the central business district of Nakuru. The necessity for tax authorities to raise revenue collection, improve service efficiency, and promote tax compliance served as the impetus for this study. The primary subject of this study was the Kenya Revenue Authority I Tax system. The goal of the study was to address the dearth of noteworthy studies on the impact of I Tax on tax return compliance in the central business district of Nakuru. The study sought to determine the impact of the I tax system on taxpayers' tax compliance in the central business district of Nakuru. The study aimed to determine the impact of fines and penalties on tax compliance performance in Nakuru city CBD, assess the attitude of taxpayers towards the I Tax system on tax compliance performance in Nakuru city CBD, examine the relationship between tax compliance costs and tax compliance performance in Nakuru city CBD, and assess the influence of I tax training on tax payers' tax compliance performance in Nakuru city CBD. Four ideas of economic-based deterrence served as the study's foundation. social influences, theories of finances and psychology, and theories of limits. A descriptive research design was used in the study. Structured questionnaires were utilized for the purpose of data collection. A stratified sampling technique was employed to select persons who had registered on I-Tax. Employees from the flower farms in Naivasha Town participated in a pilot program. A triangulation test was used to conduct the validity test. Test-retest methodology was used to conduct the reliability test. SPSS was used to analyze the data and generate both descriptive and inferential statistics. Based on the results, the study came to the conclusion that tax fines and penalties have a favorable and significant impact on tax compliance performance ($r=0.607$, $p=0.000$). tax payer's altitude on tax compliance performance: There is a substantial and positive correlation between tax payers and tax compliance ($r=0.563$, $p=0.000$). Cost of I tax: The cost of I tax compliance and the performance of tax compliance have a positive and significant relationship ($r=0.6710$ and $p=0.010$). impact of I taxpayer training: With $r=0.639$ and $p=0.010$, there is a substantial and positive correlation between I taxpayer training. The report suggests that Kenya Revenue Authority enhance the iTax platform to make it easier to use. This can be improved by offering tax training to taxpayers via workshops, door-to-door sales, and seminars to disseminate information on tax compliance, the fines and penalties associated with noncompliance, and the antecedents that determine compliance. The Treasury, in conjunction with the Ministry of Finance, should develop strategies to deal with non-compliance and obstacles that could prevent tax compliance as well as encourage the adoption and effective use of iTax. The government has to make sure that the website server is reliable during peak months and that the website is easy for income taxpayers to file income tax returns on by utilizing more sophisticated technologies.

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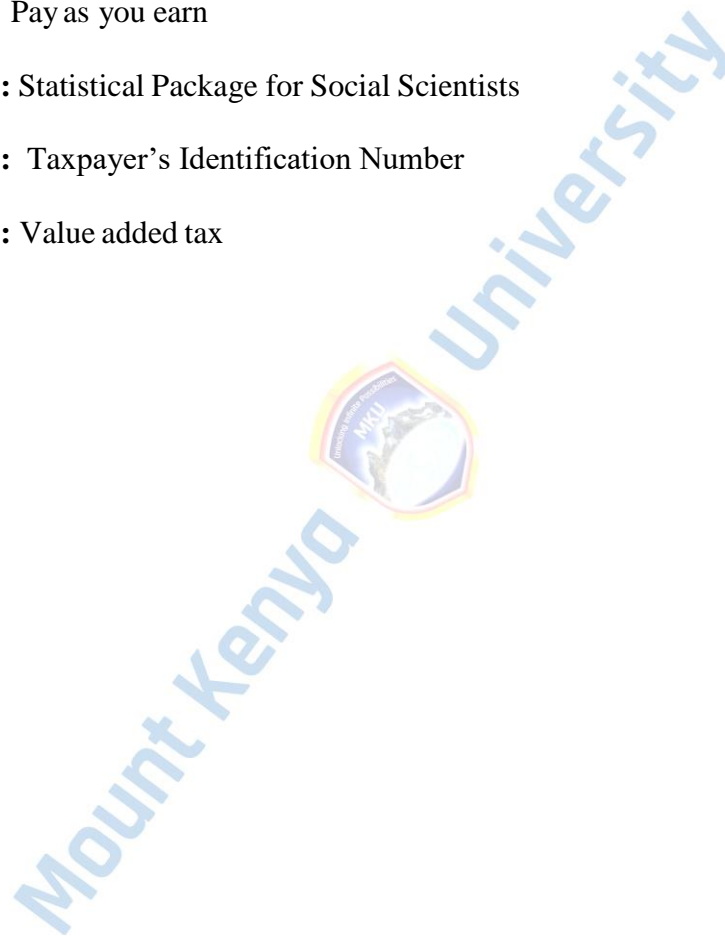
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ABBREVIATIONS AND ACRONYMS

CBD	: Central business district
ICT	: Information Communication Technology
ITAX	: Integrated tax management system
IRB	: Inland Revenue Board
KRA	: Kenya Revenue Authority
PAYE	: Pay as you earn
SPSS	: Statistical Package for Social Scientists
TIN	: Taxpayer's Identification Number
VAT	: Value added tax



CHAPTER ONE

INTRODUCTION

1.1 Background of the study

A government's and any administration's primary source of funding, taxes enable the government to achieve its budgetary requirements while also funding public services. Due to the need for governments to satisfy the needs of their constituents, tax structures have changed over time. According to each nation's tax laws, governments mandate that everyone in the applicable jurisdiction pay taxes (Lee, 2015).

It is the duty of individuals to meet the requirements necessary to be regarded as taxable persons by the authorities with the authority to enforce certain tax legislation. Delinquent taxpayers are those who fail to file tax returns and pay the necessary taxes; as a result, each jurisdiction has established procedures for handling them.

Ernst and Young LLP (2016) asserts that the digital era is altering the dynamic between tax authorities and taxpayers. Tax administrators use digital platforms to enable real-time or almost real-time taxpayer collection and assessment, placing a growing emphasis on digital tax data collecting and analysis. Companies with antiquated systems may be exposed to hazards related to taxes and regulations, which could result in higher expenses and unanticipated compliance concerns. New technology created expressly to help different agencies enforce tax laws has made it easier to enforce tax regulations (Cobham, 2018). For instance, the Kenya Revenue Authority (KRA) in Kenya has consistently worked to advance technological advancements that will aid in the management and implementation of tax regulations.

Global perspective on I tax compliance

Many tax law revisions, now so complicated that only a small number of tax experts can fully understand them, have limited income tax obligation in emerging countries. Taxpayers who lack access to knowledgeable tax professionals are further put at risk by this (Muiru, 2017). Furthermore, the enforcement of these rules cannot result in a decrease in the number of taxpayers since certain tax policies severely impair small and medium-sized taxpayers' liquidity and drive a large number of them to engage in informal business activities (Alm and Schulze, 2016). While developing nations are welcoming digitization, they are also driving the digital revolution. Chile was the first nation to implement digital technologies for tax administration. The switch to paperless imaging from paper filing was the initial phase. 1998 saw the introduction of the first digital tax returns.

But it encountered a number of difficulties. Taxpayers' inadequate internet connections and the demise of information technology posed the greatest obstacles, particularly when it came time to file taxes. Because they saw the new digital tax system as a danger to their line of work, tax return preparers also expressed a dislike for using it. A digital tax system has been implemented by the Malaysian income Authority (IRB) in an effort to increase income. The primary goals were to assist the taxpayer in fulfilling his tax obligations and to cut down on time and expenses. The necessary forms were supplied by IRB Malaysia, which needed downloading and online submission to the tax department. The unwillingness of taxpayers to use the online system was one of the major obstacles the IRB had to overcome, though. Merely 5% of taxpayers utilized electronic filing two years after its inception. Concerns regarding the privacy and security of data transmitted online were raised by taxpayers.

1.1.1 Regional perspective of I tax compliance

Elizabeth Asianzu and Gilbert Maiga (2012) claim that by utilizing an online tax administration platform known as E-tax, Uganda's URA was able to enhance its earnings. By giving taxpayers round-the-clock assistance, this technique helps both tax officials and taxpayers. This has facilitated the filing of tax returns, which can now be completed in minutes as opposed to hours using a manual method. Big businesses are the only ones who can properly use the system, though, as it still has issues, mostly with connectivity. The issues facing individual taxpayers and small- and medium-sized businesses persist. Customers are not given much backup assistance for E-tax and the system is constantly failing. As a result of Uganda's poor information system penetration, there is also little electronic system deployment. Electronic tax systems have not been adopted as quickly as they could have, and many taxpayers have chosen to submit their returns manually as a result of poor user support and a bad attitude toward the system.

1.1.2 Local perspective of I tax compliance

The ITMS system that was previously in use by KRA was replaced in Kenya by the iTax system, which was implemented in 2011. Customers are quite dissatisfied since it does not automate taxation. For a variety of domestic tax tasks, including PIN registration, tax return submission, statement and return processing, status inquiries, and real-time account monitoring, ITAX serves as a single point of contact.

Taxpayers no longer need to often visit KRA offices in order to complete their tax duties because they can simply register their personal information, file returns, make payments, and check their accounts at any time from the convenience of their home or place of business using the iTaxi platform. Through ITAX, taxpayers can check their accounts in real time from the comfort of their home or workplace,

register, file returns, make payments, and inquire about their status. All of these activities are possible 24 hours a day.

Due to the fact that the iTaxi platform is designed to allow for the generation of payment vouchers, which serve as proof that the taxpayer has made the requisite payments, the taxpayer is also able to verify whether their money has been transferred to KRA. The iTaxi platform also gave workers the ability to verify if their employer has sent the monthly amounts withheld from their pay after taxes to KRA.

1.1.3 Tax Compliance

There are various meanings of tax liability. (Marti 2020) describes it as the voluntary fulfillment of tax responsibilities originating from the law. It can be characterized as a mix of numerous procedures, including but not limited to the notification and reporting of payments. According to Kirchler (2014), it is also based on the authority's authority and the taxpayers' faith in the authority. Administrative and technical compliance are the two categories into which the Organization for Economic Co-operation and Development (2016) divides compliance in its article on tax responsibility. According to Persson (2018), tax liability is the total amount of all owed taxes.

Any discrepancy between the amount of tax actually paid and the amount owed is referred to as tax non-compliance. The overestimation and underestimating of income, expenses, and deductions are the causes of this discrepancy. Deliberate evasion as well as unintentional indifference brought on by computation errors and a lack of knowledge about tax laws are both considered non-compliance (Waweru, 2014). The way a taxpayer behaves when it comes to tax compliance typically

differs from how economic models assess compliance with tax laws. The opinions of other taxpayers have a big impact on taxpayers. Furthermore, the quantity and caliber of the audit also influence the taxpayer's tax compliance practices (Persson, 2018). In other nations, the tax issue is also significant. For instance, 8.3 percent of the 117 million income tax forms that were returned to the US in April 1995 did not appropriately reflect the tax burden of the taxpayer. Additionally, according to Karingi (2015), 7 million, or 5.6%, failed to submit their income tax form.

1.1.4 Role of the Kenya Revenue Authority on Tax Compliance

An Act of Parliament that referred to tax relations in Kenya established the Kenya Revenue Authority (KRA) in 1995. The motto of the establishment of KRA was to ensure that the institution helps honestly and rationally assess, prepare, consolidate and support tax laws on the refined border. KRA is again directed to various branches such as Customs Department, Inland Revenue Department and Support Services Department. KRA monitors various taxes based on various laws (laws such as income tax, sales tax, customs and excise, etc.

The Kenya Revenue Authority (KRA) was established in 1995 by an Act of Parliament that referred to tax relations in Kenya. The motto behind the establishment of KRA was to ensure that the agency would help honestly and rationally evaluate, prepare, strengthen and support tax laws on the refined border. KRA is again targeting different industries such as customs, tax and support services. KRA imposes different taxes based on different laws (laws like Income Tax, Sales tax, Customs and Excise, etc. The Kenya Revenue Authority maintains a division called Taxpayer Services (K.R.A. 2021) in an effort to educate current and prospective taxpayers. The unit's primary goals are to increase voluntary compliance

with tax rules by educating taxpayers about their rights and obligations and raising tax awareness. Additionally, the unit hopes to increase the size of the tax base and tax net by recruiting more taxpayers through education. Through monthly seminars, Taxpayer Education Services aims to inform recently registered taxpayers. For current taxpayers, the unit provides proactive and reactive lectures and workshops (KRA, 2021). Regions within KRA include the North Region and the Rift Valley Region. departments and regions in the West, South, and Center. Thus, it is the responsibility of KRA to guarantee that taxpayers abide by the relevant tax regulations (Griffiths, 2015).

1.1.5 Small and Medium Enterprises

SME development is essential to Kenya's economic expansion, as stated in Vision 2030. Because they increase GDP and create jobs, small and medium-sized businesses (SMEs) are seen as a key component of the economy in achieving Vision 2030. Akinboade (2015) states that SMEs are also in charge of tax collection and payments. Because of this, they are crucial to any nation's tax system. On the other hand, SMEs are more likely to be disregarded by other taxpayer categories (Walsh, 2013). This group has a high default rate and is considered high-risk, according to data from the OECD (2004). Non-compliance is frequently hard to prove. The Kenya Revenue Authority (Okello, 2014) estimates that 50% of SMEs do not comply with tax laws, and auditing them can be expensive. Therefore, it makes sense to increase small enterprises' voluntary compliance.

1.2 Statement of the problem

In 2014, KRA introduced the iTax system across the country with the expectation that it would employ this significant technology to close its income gap. The KRA's revenue targets remain unfulfilled by the Treasury, even after the implementation of

iTax. During the 2017–2018 fiscal year, the organization brought in Kshs. 1.022 billion in cash, falling short of Kshs. 1065.8 billion that was the financial goal (KRA, 2019). The Treasury claims that Kenya's budget has skyrocketed and that additional tax revenue is needed to fund it. According to the CBK National Economic Survey, SMEs make about 3% of the GDP (Kenya SME Finance Survey). The Kenya Revenue Authority (KRA) set a revenue target of K1121.5 billion for the 2014–15 fiscal year. The income objective for the National Treasury for the fiscal year was 16.4% greater than in 2013–14. (KRA 2015 Performance Report). In spite of a 9.6% rise in turnover, according to KRA's results assessment and prognosis for the 2017–2018 fiscal year. For the financial year 2017–2018, KRA collected Sh. 1.17 trillion against the aim of 1.4 trillion, indicating that the revenue manager was unable to reach the revenue target set by the Treasury (KRA 2017/2018 Financial Year Performance Review). 95% of the institution's revenue was received in the 2017–2018 fiscal year, under KRA's 7th business plan. The Kenya Revenue Authority missed its goal by Ksh 50 billion in 2016–17.

Henry Rotich, the finance secretary, stated that in just nine months, 86% of the I-Tax system was used. Nevertheless, there was a 7.9% slowdown in the growth of individuals who were paid. Numerous studies have been carried out at the local, regional, and international levels to evaluate the financial impact of online tax systems on compliance. The overall findings indicated that taxpayers' resistance to using online tax systems was largely due to low Internet access in most countries, taxpayers' lack of trust in the system's security, and taxpayers' reluctance to utilize the system.

This demonstrates unequivocally that the government and the tax department must reevaluate their initiatives to encourage taxpayers to meet revenue goals. Numerous studies have been carried out recently. For example, Griffiths (2015) examined the impact of ETR on SMEs' VAT compliance, while Muiro (2018) examined the influence of taxpayer attitudes on the compliance behavior of SMEs.

For the government to be able to oversee the nation's development plans, tax money from SMEs must be obtained (Wawire, 2011). SMEs must comply with this requirement. Over time, Kenyan SMEs have demonstrated low levels of tax compliance in Kenya, despite research efforts to determine the factors influencing tax compliance (Keraro, 2017).

As of right now, the implementation rate is 59%, which is less than the target rate of 65%, according to KRA's 7th Business Plan Report (2020). With the exception of being forced, the majority do not voluntarily register. Furthermore, they not only typically disregard current tax regulations, but they also fail to maintain documentation necessary for basic tax audits (KRA 7th Corporate Plan, 2020). Because of this, SMEs have low tax compliance rates, so it's important to examine how iTaxi affects small and medium-sized businesses' tax compliance in central Nakuru, Kenya.

1.3 Purpose of the study

The aim of the research was to determine how the ITax system affected the taxpayers in the Kenyan city of Nakuru's CBD's performance of filing their taxes on time.

1.4 Objectives of the study

- i. To determine the impact of ITax fines and penalties on taxpayer performance in terms of tax compliance in the Kenyan city of Nakuru CBD
- ii. To determine the impact of taxpayers' attitudes regarding ITax use on their performance in filing tax returns among taxpayers in the Kenyan city of Nakuru.
- iii. To ascertain how ITax affects the cost of compliance and the taxpayers' performance in terms of tax compliance in the Kenyan city of Nakuru.
- iv. To examine the impact of ITax taxpayer training on taxpayer performance in terms of tax compliance in the Kenyan city of Nakuru's CBD.

1.5 Research questions

The following research questions were the focus of the investigation.

- i. How do tax fines and penalties affect taxpayer performance in filing their returns in the Kenyan city of Nakuru's central business district?
- ii. What is the mindset of taxpayers in the Kenyan city of Nakuru regarding the use of I-Tax and how it affects the quality of tax returns?
- iii. How does taxation affect taxpayers in the central business district of Nakuru, Kenya, in terms of the cost of compliance with filing tax returns?
- iv. How does taxpayer education on I-Tax usage affect taxpayer performance and tax return compliance in the Kenyan city of Nakuru's central business district?

1.6 Scope of the Study

This survey was sent towards all small and medium-sized vendors who hold licenses from the Nakuru County Licensing Department located in Nakuru City. The study's objective was to examine factors such as ITax fines and penalties, taxpayers'

perceptions of iTax use, and , iTax compliance costs and taxpayer education on using I-Taxi among tax payers in Nakuru City CBD, Kenya. The study was conducted from July 2023 to March 2024.

1.7 Significance of the Study

The findings of this study will give the Kenya Revenue Authority important details on the elements influencing taxpayers' acceptance and usage of iTaxi in the central business district of Nakuru. Additionally, in order for KRA to enhance the iTaxi platform, the study's recommendations are crucial.

With the help of this research, SMEs may identify the variables that influence their compliance and take steps to lessen them. The report will assist the Ministry of Finance in creating guidance on how to address issues and carelessness that may impede tax compliance as well as the effective implementation and usage of iTax. The promotion of tax reform will benefit from the use of the suggestions made in this study by the many Ministry stakeholders. The study offers empirical data to direct future research in the topic, making it beneficial for academics, researchers, and tax scholars alike.

1.8 Limitations of the study

Dealing with small traders was challenging because of the nature of their work and the time constraints. However, since most small traders were assumed to have some informal education, the traders' questionnaire was simple to understand, and the research assistant clarified any confusing sections for them. Due to a number of factors that kept the respondent from providing crucial information that would have enhanced this study, the second research constraint involved assessing the veracity of the information provided to the researcher by the subject. Certain taxpayers

withheld information or only submitted a portion of it because they feared the tax authorities would investigate them. Taxpayers' income and compliance with the law are delicate topics. There was an assurance given to the responders that the information they submitted would be handled in the strictest confidence and that it would only be used for academic research.

1.9 Delimitations of the study

The second issue of the study was the accuracy of the information the respondent gave to the researcher; there were multiple reasons why the respondent was unable to provide important information that would have improved the study's utility. Income tax and tax compliance are very sensitive subjects, and some taxpayers have opted not to disclose information or have just partially disclosed it due to fear of being investigated by the revenue authority. The responders were given assurances that the information they provided would be treated with the utmost confidentiality and used exclusively for academic purposes.

1.10 Assumptions of the study

The study made the assumption that each of the chosen SMEs would be reachable during the study period and that each respondent would be willing to speak and provide the requested information in an open and honest manner. The study made the assumption that the outcomes may be repeated in other industries, including Kenya's high tax payers.

1.11 Definition of Key Operational Terms

iTax is an online platform that facilitates online tax filing, payment processing, and profile tracking for taxpayers.

Small traders: These are people or families that own and operate businesses that function as informal marketplaces, offering a range of necessities.

Small and Medium Enterprises: Enterprises with up to 100 full-time employees or an annual turnover not exceeding Ksh 150 million.

Tax: A compulsory financial subsidy imposed by a government to raise revenue and levied on the income or property of individuals or organizations, the costs of production or the selling prices of goods and services.

Tax Code - This means filing your returns, filing the correct taxes and paying your taxes on time.

Tax Information: Information or facts related to taxes.

Tax liability: Obligations related to paying taxes and submitting tax returns that a person registered with a PIN code must fulfill

Tax payer attitude : The mindset or emotions a taxpayer has regarding taxes

Tax Administrative: procedures pertaining to tax laws, such as filing returns and registering, are referred to as tax administration.

Tax Compliance Costs : costs associated with accounting for the filing of tax returns and subsequent tax payments are known as the costs of complying with tax responsibilities.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Both theoretical and empirical literature are covered in separate sections of this chapter. synopsis of the literature review and conceptual framework. The following four theories are applied in this study: the theory of limits, social influences, fiscal and psychological theories, and economic deterrence.

2.1.1 Economic based Deterrence Theory

The tax liability model is flawed; it was first proposed by Backer in 1968 and subsequently refined by Allingham and Sandom in 1972. According to this concept (Aumeerun et al., 2016), the taxpayer must determine how much of their income is allocated to the tax authorities and that they should always anticipate to receive income. According to Nagin, Cullen, and Jonson (2018), the theory's central tenet is that people make decisions based on how best to maximize their benefits and minimize their expenses. If the dangers are great enough and the costs are great enough to offset the advantages, nothing will be done. The deterrence hypothesis has been used to study a wide range of crimes, including tax evasion.

Economic theory primarily highlights economic aspects including the expenses incurred, the likelihood of being discovered, and the potential consequences of breaking a rule. The majority of traders prioritize cost reduction over all else, and they frequently disregard compliance when the risk of detection and/or the potential consequence are lower. According to Trivedi and Shehata (2015), taxpayers often make adjustments to their returns based on their preference for the audit lottery. Therefore, when a taxpayer has been found to have engaged in negligence and/or

mediation, the best approach to prevent deterrence is to raise fines and penalties. As a result, the idea connected tax responsibility to variables like tax rates, compliance costs, technological usability, and fines and penalties. If these factors come at a hefty cost, taxpayers might not be inclined to comply.

2.1.2 Fiscal and Psychological Theories

Schmolders made the observation that taxpayers' perspectives vary based on their tax attitude. This point was bolstered by the arguments made by Strumpel (2019) and Kinsey (2019), who both consider tax compliance as mostly cooperative and contend that the inflexibility of tax judgments made by tax authorities can erode compliance. The integration of many human behavior variables with education and awareness can have a good impact on compliance.

The Theory of Reasoned Action (TRA) developed by Ajzen and Fishbein (2018) asserted that the goals, motives, and views of what society may think of taxpayers all have an impact on their action. Individuals' morality and integrity are central to psychological theories. Almi, Jackson and McKee, Aumeeru et al. (2016) state that whatever the government charges the taxpayer and each person's opinion of the advantages of taxation are other elements that impact and affect the decision or cycle of tax law. . The variable of tax compensation level was discussed in this hypothesis. The claim is that if citizens think the government would look out for them and their company, they will pay their taxes. In the event if the government offered taxpayers incentives to grow their businesses, they would opt to pay more taxes. According to Torgler, religion and ethics are also taken into consideration (2017).

2.1.3 Social Influence Theory

According to the notion, people must also base their decisions on cultural norms, which may not align with their personal convictions. An individual's decisions will result in deviant behavior if they believe in an unbalanced social universe of values. When someone is caught trying to game the tax system or faces the possibility of penalty, they may comply with the requirements of tax liability out of fear of repercussions. It goes without saying that over time, individual tax compliance has remained high.

Analysis does not support the implementation of the laws by the appropriate authorities that compel people to comply. Instead of focusing on why taxpayers fail to pay their fair share of taxes, the primary goal of tax rules is to explain why taxes are paid below expectations. According to the social learning theory, after examining a few thought processes, taxpayers mimic the actions of another taxpayer. This idea aided in the study's goal of determining how taxpayers' perceptions toward ITax use affected their completion of tax returns in Kenya's Nakuru City Central District.

2.1.4 Theory of constraints

According to Goldratt (2017), the theory of constraints analyzes an organization's weakest point or limiting element that keeps it from accomplishing its objective. It then attempts to gradually enhance that restriction or limiting factor until it is no longer a concern. One focus step, which determines the present boundary, is one of five focus steps in theory. The only thing standing in the way of the organization reaching its objective is that section. Using is the second stage. This guarantees that, with the finest resources available, the border may be enhanced as soon as possible. Subordinates make up the third. By doing this, it is made sure that every process step

is examined to make sure it satisfies and supports boundary requirements. Barausse, Yunes, and Chamberlain (2016) state that raising t is the fourth step. Since there are obstacles in every step of an organization, removing one constraint must be followed by addressing the next. KRA has been struggling with issues related to the manual tax system, including submitting returns and imposing fines, which has affected its ability to collect income more effectively.

2.2 Empirical Literature Review

2.2.1 I Tax fines and penalties on performance of tax compliance

Legal enforcement measures are judicial or extrajudicial actions related to the collection of tax obligations or all obligations and the fulfillment of related guarantees (Manual and Xin, 2016). Scholars do not widely accept the importance of enforcement practices as a strategy to improve tax compliance, arguing that its effectiveness varies (Castro and Scartascini, 2015). For instance, the Kenya Revenue Authority (KRA) in Kenya has consistently worked to advance technological advancements that will facilitate the administration and enforcement of tax legislation. With the primary goal of enhancing the efficient administration and enforcement of tax regulations in Kenya, this study concentrated on the most recent iTax technology (Waweru, 2018). Because the iTax platform can generate reports of all defaulters, it is a valuable tool for enforcing the law against taxpayers who are not complying with the law (Lee, 2015). A revenue officer can generate reports for taxpayers who have not filed their returns by the deadline and for those who have filed their returns but have not made the payment using the iTax system. This is crucial because it gives the authority figures the ability to deal with non-compliance as soon as it occurs. A message to the taxpayer is also provided by the system, which accurately assesses interest and penalties. According to Njogu (2017), taxpayers who

want compliance certificates cannot obtain their certificates prior to settling their existing tax liabilities because this information allows any revenue official to check the taxpayer's position even when the taxpayer is applying for one.

Supporting and completing essential business tasks and enhancing tax compliance have benefited greatly from the KRA iTax system's installation. When making disclosures and payments in compliance with laws, rules, and court decisions, taxpayers must make sure that the authorities have access to all pertinent information, according to Yitzhaki (2017). Because neglect breeds neglect, this is the case. hence, whether the conduct is done purposefully or not, it is still considered illegal, and the authorities have set penalties for non-compliance. The Non-Compliant Taxpayer Act is enforced in part by the iTaxi platform because of its capacity to produce reports on all infractions. As of 2015, Lee . The tax administrator can generate reports on taxpayers who filed their returns after the deadline and on those who finished their taxes but failed to pay using the iTax system. This is crucial because it enables individuals in charge to deal with infractions as soon as they happen in an efficient manner.

The same notification is delivered to the taxpayer and the interest and late payment are also precisely calculated by the system. Even when a taxpayer asks for a certificate of compliance, any tax authority can use this information to see the taxpayer's position; hence, these taxpayers cannot get their certificates until they have settled any existing tax bills (Njogu, 2017). Because it is one of the variables that the tax authorities can control, fines are worth looking into. According to the report, tax authorities employ sanctions in a way that is suitable and taxpayers view them as a preventive measure. By examining prior tax evasion data, the study

provides insight into the perspectives of tax evaders on penalties and enforcement, notwithstanding the large number of taxpayers that are the subject of the investigation. When the likelihood of discovery is very low (i.e., 4% or less), researchers have discovered that taxpayers are more sensitive to the amount of the fine than the probability of detection (Sacks, 2018).

In Nairobi County, Kenya, Musau (2015) investigated the variables affecting small and medium-sized businesses' tax compliance. The study examined the relationship between tax compliance and government trust, tax value, tax knowledge and sophisticated filing techniques, and detection and fines. For the purpose of gathering quantitative data, 398 SMEs in Nairobi County, Kenya, were selected at random. The researchers discovered that raising people's perceptions of how difficult it is to evade paying taxes increases the likelihood that SMEs in Nairobi County will become tax compliant using a binary profit regression model. The study found that individuals are more likely to be in compliance with tax laws if they are happy with government services, believe tax filing procedures are simpler, have access to sufficient tax information, and trust government authorities to handle their taxes.

2.2.2 Taxpayer's attitude towards ITax and tax compliance

It's important to comprehend tax evasion opportunities, according to a lot of research. The public does not consider taxes to be a major crime, according to research by Berk et al. (2015). Tax evasion is viewed as less significant by the general public than white-collar crime, according to a Turkish survey. emphasizes the detrimental effects of SMEs on the economy and their lack of awareness of tax issues. SMEs see shoplifting and tax evasion as nearly identical offenses, according to Karlinsky et al. (2014). Baru (2016) makes the case that a business should pay its

fair share of taxes and that taxpayers view paying taxes as a form of civic obligation. SME support for tax evasion is evident from other studies, particularly in industrialized nations where it hinders economic growth.

Gunz and colleagues, 2014. Mugenda (2015) came to the conclusion that SMEs frequently put policies into place that they think will help their company. Since small and medium-sized traders typically work in the unofficial economy, they think it is impossible for the government to accept them. This is due to the fact that the majority of these traders engage in non-documented business activities in addition to being registered with the local government, which results in non-compliance. (Wembley, 2017). Since small enterprises are not classified and are therefore not registered as taxpayers, they stand a high possibility of evading taxes.

Perceived pressure, perceived opportunity, and rationalization are connected, according to W. Albert's 2019 fraud triangle. One possible cause of this could be fraud, asset theft, or corruption. An individual's ability to evaluate things for himself and manage information according to his own interests is what gives rise to perceived opportunity. In small enterprises, opportunities may arise from ignorance, a failure to comprehend the law, or an incapacity to verify the accuracy of the work completed. The likelihood of tax evasion may have a detrimental impact on tax compliance, claim J Keraro, M Oloo, and P Ragama (2015). According to Baru (2016), a corporation ought to pay its fair share of taxes since taxpayers view paying taxes as a social obligation.

According to other studies, SMEs oppose tax evasion because they believe it stunts economic growth, particularly in industrialized nations. Gunz and associates, 2014. Mugenda 2015 came to the conclusion that SMEs adhere to laws they feel will help

their company. Ortega and Sanguinetti (2018) carried out a study that is comparable in that it looks at the role that moral trust and enforcement have in raising tax compliance. According to the study, communications delivered in a controlling tone have a bigger influence on tax policy than information delivered in a tone that is morally appealing.

The elements influencing tax policy compliance in Nigeria were studied by Dibia and Dibia (2020). The two main factors that were looked at were corruption and tax law knowledge. The study used primary data collected by means of questionnaires and interviews with participants that provided both quantitative and qualitative data. By means of content analysis, it was established that tax compliance in Nigeria was significantly influenced by tax awareness. Furthermore, tax payers were disinclined to pay because they thought there was corruption.

Ortega and Sanguinetti (2013) also look at the efficiency of moral persuasion and enforcement in raising tax compliance in a related study. Research indicates that when messages are delivered in an enforcement tone, they have a higher impact on tax compliance than when they are delivered in a morally persuasive tone.

Since small traders typically work in the unofficial economy, they think it is impossible for the government to obtain them. This is due to the fact that the majority of these traders engage in non-documented commercial activity other than registering with local authorities, which results in non-compliance (Wembley, 2016). Due to their lack of classification, which prevents them from being registered for taxes, small traders are at a higher risk of evading taxes. The fraud triangle (W. Albert, 2019) posits that there are connected relationships between felt pressure, perceived opportunity, and justification. Fraud, wealth theft, and corruption may be

at blame for this. Ignorance, a lack of legal knowledge, and an inability to determine the accuracy of work completed can all contribute to an opportunity for small enterprises. Tax evasion may have a detrimental impact on tax compliance, according to J Keraro, M Oloo, and P Ragama (2015).

In order to determine the variables impacting SME tax compliance in Indonesia, Inasius (2019) carried out a study. Multiple regressions are used to study six tax compliance variables. The data came from a Jakarta-based study that was conducted among 328 small business taxpayers. A questionnaire survey that was administered by the researcher was used to gather data. The study's conclusions showed that a number of factors, including tax competence, the possibility of an audit, referral networks, and the perception of equity and fairness, significantly influence tax compliance. Particularly, the referral group had the biggest influence on the noncompliance behavior of SME taxpayers.

2.2.3 I Tax cost of compliance and tax compliance

Tax compliance costs are defined by Eichfelder and Hechtner (2018) as the expenses incurred by taxpayers in order to satisfy their tax responsibilities. Compliance is impacted by the cost of adhering to tax laws in order to fulfill a company's tax obligations. By overhead, budget, and time, they can be categorized. These are the expenses borne by the government and taxpayers in order to comply with tax compliance laws and regulations.

Social expenses and taxpayer compliance costs are associated with tax compliance, according to research by Tran-Nam, Evans, and Walpole (2020). Administrative expenses are the costs borne by the government in the process of collecting the tax. They are brought about by the taxpayer fulfilling their commitments and the legal

restrictions placed upon them, according to Eisenfelder and Schorn (2017). As per the OECD report from 2001, compliance costs are genuine hazards that need to be considered while researching this topic. This is because the expense causes the private company's resources to be reduced. The majority of businesses, according to (Franzoni, 2019), do not collaborate when they face harsh fines and penalties in addition to high ratings.

The total time spent includes both internal expenditures (such as hiring employees) and external costs (such as additional fees for maintaining books and accounts). Charges that an organization incurs but that its management is unable to control are included in these consistency expenses. Studies indicate that taxpayers are unable to comply with the legislation due to high compliance costs (Abdul & Wang'ombe, 2018).

2.2.4 I Tax Taxpayer Training and Tax Compliance

Understanding tax principles that are significant to the country is known as taxation (Fauziate et al., 2016). In the self-assessment age and in accordance with KRA's trust and facilitation philosophy, this is crucial to ascertain the accurate tax liability. It is expected of taxpayers to be aware of and educated about tax laws and guidelines. Because it enables citizens to comprehend and fulfill their tax duties, tax education is essential. Thus, the primary goal of taxpayer education is to promote taxpayers' voluntary compliance (Oladipupo and Obazee, 2016).

In 2015, Newman et al. made the case that SMEs in industrialized nations do not adhere to tax regulations, pointing out that basic education is the level at which introductory classes are introduced. According to a study conducted in 2016 by Oladipupo and Obazee using survey research on the effect of taxpayer information

and penalties on tax compliance of small and medium firms in Nigeria. Ordinary least squares regression analysis was performed on the data gathered from the survey. The findings demonstrated that compliance with tax laws was significantly improved by tax knowledge. Tax knowledge, according to research, tends to encourage tax laws more. Additionally, owners of small and medium-sized businesses should work to raise their employees' understanding of taxes and the advantages that both the government and taxpayers share.

Tax non-compliance might result from ignorance of taxes, according to Mckerchar and Hansford (2015), but Nyamwanza et al. (2014) contended that tax awareness is not the main cause of non-payment of taxes. While tax awareness refers to the knowledge one requires to carry out certain tasks, training focuses on influencing an individual's ability to accomplish a desired result. Respect for knowledge recognition and adherence to relevant tax laws and regulations are two aspects of tax awareness (Mulian and Shewan 2017).

According to Hassan, Nawawi, and Puteh Salin (2016), there are three main categories into which the goals of taxpayer education fall. It first aids in the dissemination of knowledge regarding tax rules and compliance. Furthermore, it has a significant impact on taxpayers' views, which encourages voluntary compliance. In the end, this makes it easier for more people to pay their taxes, which raises tax revenue. The tax obligation may or may not alter as a result of awareness, education, and other enabling strategies that act in both directions. Since tax knowledge and awareness are acquired through education and are beneficial to both the public and the government, tax awareness is a concept that is in between. It can also positively impact taxpayers' attitudes toward enforcement.

2.3 Conceptual Framework

The conceptual framework shown in Figure 1 shows the relationship between the independent variables I-Tax fines and penalties, taxpayers' attitudes towards using I-Tax, the costs of completing I-Tax and taxpayer education about using I-Tax and completing tax returns. and medium sized businesses in Nakuru City CBD, Kenya.

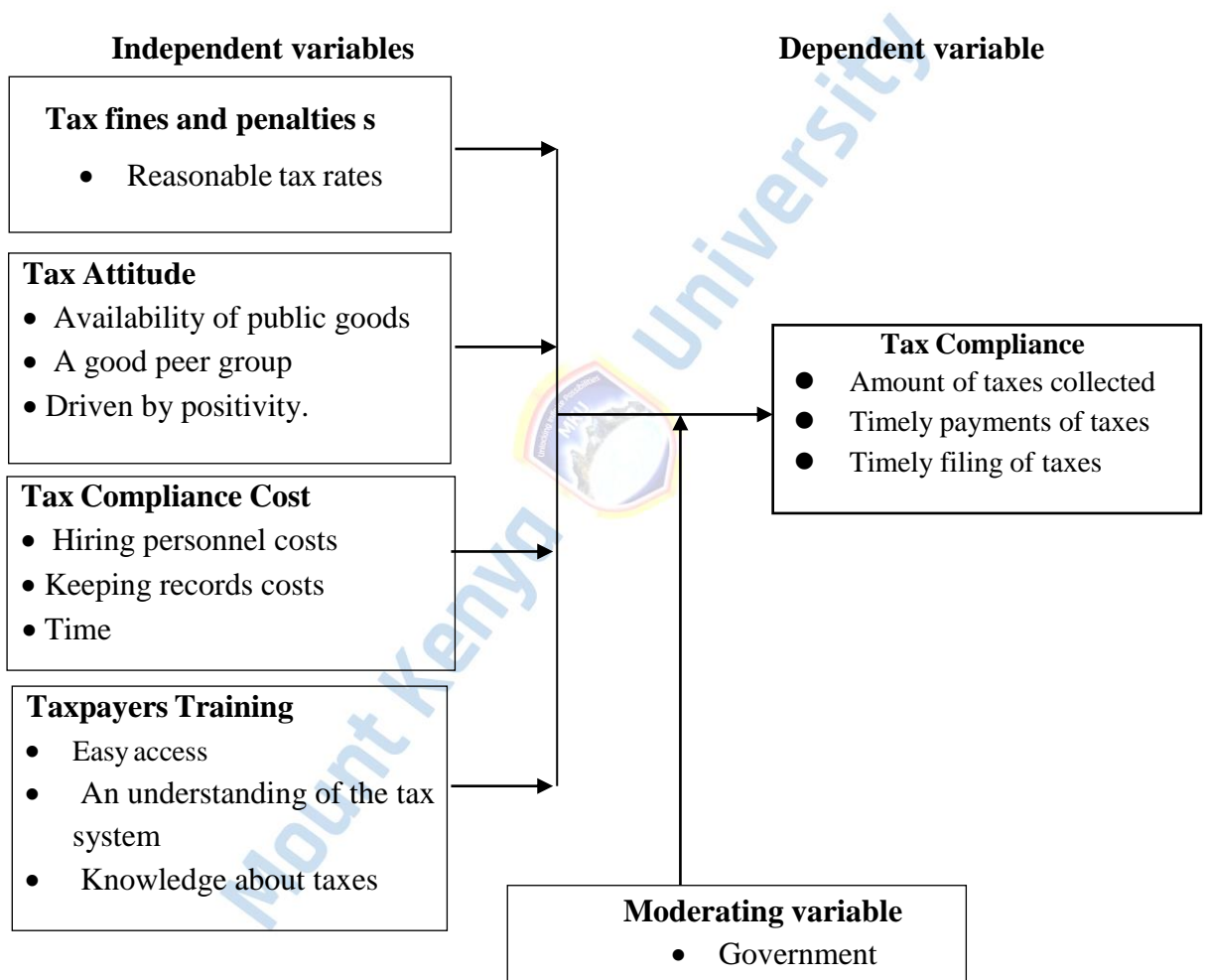


Figure 1: Conceptual Framework

(source own conceptualization, 2023)

The conceptual framework of this study states that the performance rate of SMEs in Nakuru City CBD, Kenya, is directly impacted by the variables under consideration. The amount of tax, the rate at which it is charged, and the severity of the penalties all

have an impact on tax policy. Tax fines and penalties are an independent variable. Education about taxes is another independent factor that influences tax liability. The degree to which taxpayers comply with their duties is significantly influenced by their comprehension of the tax system and taxation. The majority of taxpayers' choice of whether or not to comply also has a significant impact on the cost of compliance. An further independent element is the taxpayer's mindset. Peer attitudes on tax obligations, taxpayer motivations for tax obligations, and the availability and usability of public assets all have an impact on tax recovery. As such, the dependent variables are manipulated to determine the tax liability of the dependent variable. One of the key factors influencing taxpayers' decisions to comply with tax laws is government policy, which is the variable under measurement. Both encouragement and discouragement of tax compliance may result from these regulations.

2.4 Recap of Literature Review

The work done so far to determine how taxes can be improved and taxpayers' understanding of tax compliance still has to be improved upon in comparison to the prior study. Even if the research concentrated on taxpayer behavior, the subject of how to alter taxpayer perception in order to increase revenue still needs to be posed. Education and Awareness of Taxes The majority of the research that have been done to better understand tax data and the laws and policies pertaining to tax liability have not been done in this metro region. Furthermore, studies have not been able to offer a clear explanation for how small and medium-sized enterprises' tax issues work.

Because most compliance cost studies have primarily looked at income taxes, they have not been able to fully represent the costs to taxpayers. in addition to the fact that other taxes, such presumed taxes, were not the subject of the investigations. The known advantages of tax evasion The majority of research to date has concentrated

mostly on psychological rather than moral issues and has only examined multinational corporations rather than small business owners. Technology: Archiving Web Content The majority of study has been less concerned with the individual or the intended audience and more with the system, the protocols, and the regulations that must be adhered to. As a result, far more work needs to be done than most cities realize to comprehend the difficulties this industry faces.

Few studies have been conducted in Nakuru County; nonetheless, Nakuru City is one of the fastest-growing business districts in the county, home to a sizable number of ITax registered taxpayers, and as such, has relatively reasonable taxes. A compilation It is imperative to bridge the enormous knowledge gap about the impact of ITax on tax compliance that has been caused by the dearth of research conducted in Nakuru County. To better understand how taxes affect small and medium-sized businesses' tax obligations in Kenya's Nakuru City Central Business District is the study's specific goal.

It is anticipated that the findings would improve legislators' understanding of taxpayer obligations, particularly with regard to the K.R.A. This will allow for more efficient planning and design of services, which will raise tax revenue.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The research approach utilized to meet the research goals is presented in this chapter. The research design, target population, sample size determination process, research instrument, data collection techniques, and data analysis techniques are all covered in this chapter.

3.2 Research Design

A descriptive research design was employed in this study. According to Smith (2015), there are multiple units utilized to depict the existing state of affairs. Not only does the researcher record what occurs, he does not change the factors. As it encourages the gathering of primary data to explain and address the research aims, this is pertinent to the current investigation. It provides guidance on how to respond to the questions and specifies the sources of the information in plain language. Studies that describe the traits of a particular person or group are known as descriptive studies (Kothari, 2018). I.e. Descriptive research attempts to characterize potential behavior, attitude, values, and features of such things, as well as to identify and represent the current situation, according to Mugenda & Mugenda (2018). A significant amount of detailed information about the study population was gathered by the researcher because of the descriptive design. In addition to doing quantitative and qualitative research, the researcher.

3.3 Target Population

The target group for this study was all 1416 small-scale traders who held licenses from the county licensing department of the registrar of trade in Nakuru, Kenya, according to the Micro Small and Medium Enterprises Authority (MSEA) (2020).

Table 1: Target Population

Business sector(small andmedium)	Total
Manufacturing	156
Service industry	325
Commercial	278
Others(e.g boda boda operators)	657
Total	1416

Source: County Licensing Department Nakuru, 2022

3.4 Sampling Procedure and technique

A sample is a subset or a representative component of the total population. Using the formula for stratification, the sample size is established. In order to guarantee fair involvement of the respondents, a stratified random selection technique was used to choose the sample from a population of 1416 people based on Nakuru county government coding. Traders with permits from the Nakuru County Licensing Department made up the sample size. sample size and methodology.

Table 2: Sample Size

Business sector(small and medium)	Total	Rep sample Y= 302/1416*x
Manufacturing		33
Service industry		70
Commercial		59
Others(e.g boda bodaoperators)		140
Total		302

(Source: County Licensing department Nakuru, 2023)

The sample size as recommended by Krejcie and Morgan (1970) was determined using the following formula:

$$S = \frac{X^2 NP (1-P)}{d^2 (N-1) + X^2 P(1-P)}$$

Where;

S = required sample size N = given population size

P = population proposal for tabulation (0.50 is assumed because that quantity gives the largest possible required size).

d is the degree of precision, stated as a proportion, that is represented by the total error that can be permitted for the fluctuation of the sample proportion p with regard to the population proportion p.

X² = tabulated chi-square value for one degree of freedom against the desired confidence level, which is 3.841 at a confidence level of 0.95.

Adding the required data to the formulas gives:

$$N = 1416 \text{ SME target group } P = 0.50$$

D = 0.05 Substitute the above values:

$$\frac{3.841 \times 1416 \times 0.50(1-0.50)}{0.0025 (1416 - 1) + 3.841 \times 0.50 (1 - 0.50)}$$

$$0.0025 (1416 - 1) + 3.841 \times 0.50 (1 - 0.50)$$

= 302 sample size of the SM

3.5 Data Collection Instrument

There were partially closed items on structured surveys. Owners of small businesses who file taxes received questionnaires. Both quantitative and qualitative data were gathered. With the assistance of research assistants, the researcher complied with both ethical requirements when gathering the data. Subjects were given questionnaires that were selected after respondents had completed them. Each questionnaire was accompanied by an introduction and informed consent explaining the purpose of the study and voluntary participation.

3.6 Pilot Testing

A pilot test was conducted in Naivasha town for 30 small and medium enterprises representing 10% of the sample respondents. Naivasha town was chosen because of its physical location and remoteness from the study area and therefore the factors under consideration were assumed to reflect the tax compliance of Nakuru town.

3.6.1 Validity Testing

In terms of assessment tools, validity denotes the degree to which observed variations correspond to true variations among the subjects undergoing the examination. According to David and Thomas (2016), the content validity of the instrument was ascertained through a supervisor's discussion of the items included in it, who assisted in improving the problem definition and the study's items.

The validity of the instruments utilized was increased through triangulation of research tools. This required the use of several data kinds as well as various techniques for gathering data, such as structured questionnaires with both closed-

and open-ended questions. It also featured approaches that were both qualitative and quantitative.

3.6.2 Reliability of Research Instruments

A measure is reliable if it gives consistent results (Kothari, 2018). The test-retest method was used to test the reliability of the devices. The researcher distributed the questionnaires to approximately 30 people once during the pilot project and one week later. The stability test was assessed by comparing the pilot and second-order answers. The purpose of pretesting was to assess the research instruments' precision, understandability, and applicability. Finding Cronbach's alpha allowed for the assessment of the test items' dependability. The research tool was deemed dependable and the calculated values were acceptable if they were higher than 0.7.

Table 3: Reliability Test Results

Variables	No. of Items Tested	Cronbach Alpha Value
The fines and penalties of ITax	10	0.755
attitude of taxpayer's	12	0.850
compliance cost of I tax	9	0.883
training of taxpayers	15	0.763
compliance of tax	4	0.731

(Source filed data ,2024)

The results in Table 3 show that Cronbach's alpha $\alpha = 0.755$ for fines and sanctions. This value is greater than 0.7, so the statements about the fines and the reasons for paying the fines were reliable. These were failure to file returns; notices from the institution on the submission of tax returns; Submit a return after the due date; under the income statement; Recovery of expenses not related to business activity; revocation of licenses due to unpaid taxes; charges related to taxation; arrests and imprisonment orders for tax crimes were by KRA.

Cronbach's alpha value for taxpayer attitude was $\alpha=0.850$. The result means that the attitude of taxpayers exceeded the 0.7 mark. That said, registration statements /questions are still not my priority, were reliable; I find the ITax system quite friendly to use; I need not be reminded that I must return; If I had the chance, I wouldn't file tax returns; my personal tax return and payment are always on time; The hassle of standing in line for a long time at tax offices has ended; File expenses have significantly decreased with online filing;

Thanks to the use of ITax, considerable time is saved; Fear of getting caught influenced your decision to join I-Assessment; Your own will influenced your decision to join I-Assessment; The benefits of Itax influenced your decision to register with I-Taxi, and registration is not yet a priority for me; you meet all your tax obligations by the deadline; I never missed a drop time, all of which were reliable.

According to the findings of the reliability test, the cost of compliance has a cronbach alpha value of $\alpha=0.883$. Given that the value is higher than 0.7, the claims. The total costs associated with compliance have an impact on your degree of compliance; these include hiring professional staff, keeping books, paying for software and the Internet, auditing related transactions, online filing being too expensive, paying for a tax consultant, the lengthy and expensive process of filing tax returns, and the high costs associated with bookkeeping. For taxpayer training, the Cronbach alpha score was $\alpha=0.763$. The outcome suggests that taxpayer education satisfied the 0.7 requirement. It indicates that I am not well versed in using the I-Tax system based on the comments and questions.

3.7 Data Collection Procedure

A letter of introduction was obtained from Mount Kenya University's postgraduate school. A clearance letter from NACOSTI (The National Commission for Science, Technology, and Innovation) will also be sought to be obtained. In order to permit data gathering within the county, a letter from the Nakuru County Licensing Office was also requested. Prior to being sent loose to gather data, the research assistants underwent training as well. Those who registered and shown interest in taking part in the study met the eligibility requirements. After being informed about the goal of the study and how it would benefit them, respondents were given 30 minutes to complete the questionnaire. Since the research was able to gather data on time and support any respondents who required clarification on the questionnaires, the drop and select method looked appropriate.

3.8 Proposed Data Analysis and Presentation

Content analysis was used to identify and categorize the major themes in the qualitative data. Descriptive statistics were also used to examine quantitative data, and the terms mean, standard deviation, frequency, and percentages were employed. Correlation, ANOVA, and regression modeling—inferential statistics—were taken into consideration. Data analysis was done using the Statistical Package for Social Scientists (SPSS). The regression model, statistical tests for the quantitative data, and diagnostic tests are covered in the subsections that follow.

In the analysis, the regression equation that follows will be used.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where: Y=Tax Compliance

X₁ =Tax penalties and fines X₂= Tax altitude

X₃ = iTax cost compliance X₄ = itax training

ε = error term β_4 = correlation

coefficient α = constant

3.9 Ethical Consideration

A letter of introduction was needed by the researcher from Mount Kenya University's postgraduate school. The researcher also requested a letter from NACOSTI and a clearance letter from Mount Kenya University's Ethical Review Committee, which explained to the respondents the significance of the study and the general goals of the research. The respondents were given an informed consent letter outlining the goal of the study, which enabled them to voluntarily participate. The participants were guaranteed the privacy of any information provided and that it would be utilized exclusively for the objectives of the research.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter includes an interpretation and discussion of the study's conclusions in addition to a comprehensive descriptive analysis of the research data gathered. The response rate is first shown in this chapter, which is then followed by the profile of the respondents and the results of the study variable. The results are presented in tables and discussed in this chapter with respect to the particular objectives of the study.

4.2 Response Rate

The number of units in the study's net sample expressed as a percentage of the gross sample is the definition of a response rate, according to Schwarz (2013). A total of 302 questionnaires were distributed for this study; of them, 272 were correctly returned and found to be completed, therefore they were employed in the investigation.

4.3 Diagnostic Tests

Tests for pre- and post-estimation were carried out in order to support the usage of regression models. The tests for linearity and multicollinearity were performed as pre-estimation in this instance, while the autocorrelation test was performed as a post-estimation test. The purpose of this action was to prevent the acquisition of erroneous regression findings.

4.3.1 Tests of Linearity

Testing for linearity was done to determine the relationship between tax compliance, taxpayer attitude, fines and penalties, and the cost and duration of compliance.

Tables 4,5, 6, and 7 present the findings.

Table 4: Linearity between fines and penalties and tax compliance

		Sum of Squares	df	Mean Square	F	Sig.
Tax compliance * fines and penalties	(Combined)	3.668	10	.367	3.471	.015
	Between Groups	2.042	1	2.042	19.326	.001
	Linearity					
	Deviation from	1.626	9	.181	1.710	.172
	Linearity					
	Within Groups	1.585	163	.106		
	Total	5.252	272			

(Source filed data ,2024)

Table 5: Linearity between taxpayer's attitude and tax compliance

		Sum of Squares	df	Mean Square	F	Sig.
Tax payers attitude * Tax compliance	(Combined)	2.011	10	.201	.930	.533
	Between Groups	1.186	1	1.186	5.489	.033
	Linearity					
	Deviation from	.825	9	.092	.424	.912
	Linearity					
	Within Groups	3.242	163	.216		
	Total	5.252	272			

(Source filed data ,2024)

The results in Table 5 show that the deviation from linearity between tax taxpayer's attitude and tax compliance was 0.912. This implies that there was a linear relationship between tax taxpayer's attitude and tax compliance since 0.912 is greater than 0.05 level of significance.

Table 6: Linearity between cost of compliance and tax compliance

Sum of Squares			df	Mean Square	F	Sig.	
		(Combined)	2.629	11	.239	1.276	.329
Cost of compliance * Tax compliance	Between Groups	Linearity	1.542	1	1.542	8.233	.012
		Deviation from Linearity	1.087	10	.109	.580	.815
		Within Groups	2.623	152	.187		
Total			5.252	272			

(Source filed data ,2024)

Results in table 6 shows that the p-value for the deviation from linearity between cost of compliance was 0.815. The deviation from linearity was greater than 0.05; $0.815 > 0.05$. Therefore, there existed linear relationship between cost of compliance and tax compliance.

Table 7: Linearity between taxpayer training and tax compliance

Sum of Squares			df	Mean Square	F	Sig.	
		(Combined)	3.846	10	.385	4.103	.007
Taxpayer training * tax compliance	Between Groups	Linearity	2.846	1	2.846	30.363	.000
		Deviation from Linearity	1.000	9	.111	1.185	.361
		Within Groups	1.406	163	.094		
Total			5.252	272			

(Source filed data ,2024)

The findings show that the deviation from linearity between tax payer training and tax compliance was 0.361. This implies that there was a linear relationship between bond investments and profitability since 0.361 is greater than 0.05 level of significance.

4.2.2 Test for Autocorrelation

The presence or absence of autocorrelation (serial correlation) was assessed using the Durbin-Watson test for autocorrelation. A test statistic with a range of 1.5 to 2.5 is considered to be pretty typical, according to the decision rule. Values outside of this range may warrant further investigation, per Field (2019). After examining the data in Table 8, it was determined that there was no auto connection because the value of 1.655 fell between the 1.5 and 2.5 range. Table 8 displays the test findings.

Table 8 : Autocorrelation Model Summary

Model	R	R ²	Adjusted R ²	Std. Error of the Estimate	Durbin-Watson
1	.757 ^a	.565	.545	.26428	1.655

a. Predictors: (Constant), fines and penalties, taxpayer's attitude, cost of compliance, taxpayer training

b. Dependent Variable: Tax return compliance performance

4.2.3 Normality test

To ascertain whether the data was regularly distributed, a normality test was run.

Table 9 displays the results of the normalcy test.

Table 9: Tests of Normality

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Tax compliance	.119	26	.200*	.968	26	.572

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

Table 9 shows that the p-value was 0.572. For normally distributed data, the p-value is greater than 5% significance level. 0.572 is greater than 0.05 thus the data was normally distributed.

4.2.4 Test for Multicollinearity

To make sure the independent variables did not have co-linearity among themselves, a multicollinearity test was conducted. Multicollinearity is the term used to describe the situation where there is a significant degree of correlation between independent variables, leading to substantial standard errors of the affected variables' coefficients. Multicollinearity was evaluated using Tolerance and the Variance Inflation Factors (VIF). VIF values more than 10 are thought to be a sign of multicollinearity, according to Field (2019). Multicollinearity is present when the tolerance values are less than 0.1. The tolerance levels and VIF as displayed in Table 10. Field (2019) stated that these showed no evidence of multicollinearity.

Table 10: Tolerance and VIF Test

Model	Collinearity Statistics		
	Tolerance	VIF	
1	(Constant)		
	Fines and penalties	.414	2.347
	Attitude of taxpayer's	.673	1.445
	Tax Compliance Cost	.423	2.337
	Training of taxpayers	.404	2.347

(Source filed data ,2024)

35% of respondents were men and 65% were women, according to the data. This suggests that women made up the majority of the responders who file taxes.

4.4.2 Age of the respondents

The purpose of the study was to determine the average age of the participants who file taxes. Table 11 presents the analysis's conclusions.

Table 11: Age of the respondents

Years	Frequency	Percentage
18 -29 Years	74	27
30-39 Years	63	23
40-49 Years	55	20
49-49 years	43	16
50-59 years	29	11
Above 60 Years	8	3
Total	272	100.0

(Source, field data ,2024)

From the findings majority of the respondents who are tax payers were aged between 18-49 years comprising of 70%.

4.4.3 Academic Qualification

Finding out the respondents' level of education was the goal of the study; Table 12 displays the findings of the analysis.

Table 12: Academic Qualification

Gender	Frequency	Percentage
Primary	32	12
High school	40	15
Certificate	62	23
Diploma	63	23
Bachelor	55	20
Post graduate	20	7
Total	272	100

(Source, field data ,2024)

From the findings 12% of the respondents were at primary level, 15% were at high school. 23% stated that they had certificate, 23 % had diploma qualification, 20%

had bachelor's degree while 7 % stated that they had postgraduate degree qualification. This implies that majority of the respondents were well educated hence they answered the questions correctly and they were aware of tax compliance.

4.4.4 Business Information

Table 13 displays the analytical results, which were the study's goal in determining the respondents' business type.

Table 13: Business Information

Gender	Frequency (n)	Percentage
Manufacturing	28	10
Service	47	17
Commercial	52	19
Others e.g bodaboda	145	54
Total	272	100

(Source, field data ,2024)

From the findings 10 % of the respondents were engaged in manufacturing , 17 % were in services,. 19 % were engaged in commercial businesses while the majority comprising of 54 % were engaged in other businesses. This implies that majority of the respondents who were tax payers are engaged in other business like bodada .

4.4.5 Years in business

The purpose of the study was to ascertain how long the respondents had been in business. Table 14 shows the analysis's findings.

Table 14: Years in Business

Years	Frequency(n)	Percentage
0 -5 Years	93	34
6-10Years	63	23
11-15 Years	70	26
Above 15 Years	46	17
Total	272	100.0

(Source, field data ,2024)

The research findings revealed that 34 % of the respondents were in business between 0-5 years. Those who were in business between 6-10 years were 23 %. Those who were in business between 11-15 years were 26% and those above 15 years were at 17%. This implied that majority of the respondents were in business between 0-5 years.

4.4.6 Total Sales Per Year

The study sought to find out the total sales of the respondents, the results of the analysis are indicated in Table 15.

Table 15: Total sales per year in Millions

Years	Frequency(n)	Percentage
Less than 1	70	26
Between 1-1.9	73	27
Between 2-2.9	51	19
Between 3-3.9	36	13
Between 4-4.9	23	8
Over 5	19	7
Total	272	100.0

(Source, field data ,2024)

The research findings revealed that those respondents with sales less than 1million comprised of 26 % . Those with sales between 1- 1.9 million comprised of 27%.

Those with sales between 2-2.9 million were 19%. Those between 3-3.9 million were 13%. Those with sales between 4-4.49 million were at 8% while those with sales over 5 million were 7%. These results implied that majority of the respondents total sales per year were below 2 million.

Descriptive Statistics for the study variables

This study aimed to determine how the ITax system affected the taxpayers in Kenya's Nakuru city central business district's performance in filing their tax returns. Four variables were the focus of the study: taxpayer attitude, taxpayer training, taxpayer fines and penalties, and taxpayer cost of compliance.

4.4.7 Influence of I tax fines and penalties on performance of tax

The primary goal of the study was to determine the factors influencing the way in which taxpayers in the central business district of Nakuru City comply with ITax fines and penalties. In-depth statistical results are displayed in Table 16.

Table 16: Descriptive Statistics on I Tax fines and penalties

I Tax fines and penalties	N	Min	Max	Mean	Std. Dev.	CV (%)
Non filling of returns	272	2	5	3.27	.813	25.09
Agency notices to file tax returns	272	2	5	3.34	.770	24.29
Filing returns after due date	272	2	5	4.13	.837	22.25
Under the income declaration	272	1	5	3.46	.756	28.66
claiming costs that are not related to business	272	2	5	3.14	.767	30.93
Licenses being revoked due to unpaid taxes	272	2	5	3.41	.870	26.64
charges pertaining to taxes	272	1	5	3.25	.803	31.93
Arrests brought about by tax offenses	272	1	5	3.55	.789	26.10
Valid N (listwise)	272					

(Source, field data ,2024)

Table 16 presents the study's findings, which indicate that the respondents' payment of penalties and fines was motivated by the following reasons: With a mean of 3.27, standard deviation of 0.813, and coefficient of variation (CV) of 25.09, the majority of respondents believed that non-filing of returns affects I tax fines and penalties. The results also showed that most people agreed that agency notices to submit tax returns have an impact on I tax penalties and fines. The notices had a mean of 3.34, a standard deviation of 0.770, and a CV of 24.29. Additionally, filing returns beyond the deadline was found to have a mean of 4.13, a standard deviation of 0.837, and a CV of 22.25. Additionally, it was determined that income declaration with a mean of 3.46, a standard deviation of 0.756, and a CV of 28.66 affected the fines and penalties associated with I tax.

Furthermore, with a mean of 3.14, a standard deviation of 0.767, and a CV of 30.93, the respondents agreed that declaring expenses as non-business-related has an impact on tax fines and penalties. Additionally, it was shown that license revocation due to late tax payments influences I tax fines and penalties, with a mean of 3.41 within a standard deviation of 0.8707 and a CV of 26.64. According to the research findings, tax-related prosecutions had an impact on tax fines and penalties, which had a mean of 3.25, a standard deviation of 0.803, and a CV of 31.93.

Along with this, the data showed that arrests for tax offenses have an impact on I tax fines and penalties, with a mean of 3.55, a standard deviation of 0.789, and a CV of 26.10. The present discovery aligns with the perspective put up by Castro and Scartascini (2015), who contended that legal enforcement actions, such fines and penalties, may be interpreted as reprisals for actions that negatively impact the community. As one of the factors that tax authorities can manage, penalties are a

subject of significant research importance. The study emphasized the appropriate use of fines by the revenue authorities and the influence that taxpayers felt penalties had as a deterrent. By examining actual tax evader data, the study will provide some insight into the opinions of tax evaders about penalties and enforcement actions, even after accounting for some anticipated inherent bias given the cohort of taxpayers under investigation. It has been observed by several researchers that when the chance of discovery is very low (i.e., 4% or less), taxpayers are more sensitive to the amount of the penalty than to the risk of detection (10).

4.4.8 Altitude of the taxpayer's impact on tax compliance

This part aligns with the second study objective, which aimed to impact taxpayers' attitudes regarding the usage of ITax on their performance in complying with tax laws by filing tax returns in the central business district of Nakuru. The statistical data are displayed in detail in Table 17.

Table 17: Descriptive Statistics tax payer altitude on tax compliance

Tax payer altitude on tax compliance	N	Min	Max	Mean	Std. Dev.	CV (%)
For me, registration is still not a top concern.	272	2	5	3.41	.960	27.54
I find using ITax system quite friendly	272	1	5	3.45	.803	32.83
It's not necessary to remind me to submit any returns.	272	1	5	3.55	.979	26.10
I would not file taxes if given the opportunity.	272	2	5	3.53	.950	26.35
I always file and pay my taxes on time as an individual.	272	1	5	4.12	.813	25.35
The hassle of standing in line for hour at tax offices has been eliminated.	272	2	5	3.19	.932	30.39
The cost of filing has been greatly decreased via online filing.	272	2	5	3.24	.823	24.14
The adoption of ITax results in significant time savings.	272	2	5	3.18	.785	30.54
The decision to register with I-Tax was driven by your fear of being discovered.	272	1	5	3.17	.915	30.56
Your own willingness had an impact on your choice to sign up for I-Tax.	272	1	5	3.60	.758	30.13
you fulfill all of your tax responsibilities prior to the specified deadline.	272	2	5	4.11	.845	21.22
I have never missed any filing deadline	272	2	5	3.31	.825	23.670
Valid N (listwise)	272					

(Source, field data ,2024)

With a mean of 3.41, a standard deviation of 0.960, and a CV of 27.54, Table 11's data indicate that the majority of respondents tax payer altitude toward registration

remains unimportant to them. According to the research findings, which had a mean of 3.45, a standard deviation of 0.803, and a CV of 32.83, the majority of respondents thought that utilizing the ITax system was fairly friendly. The research results, which had a mean of 3.55 within a standard deviation of 0.979 and a CV of 26.10, indicated that they did not require a reminder to submit any taxes. With a mean of 3.53 within a standard deviation of 0.950 and a CV of 26.35, it was also determined that the majority of respondents said they would not submit tax returns if given the opportunity. It was determined that, with a mean of 4.12 within a 0.813 standard deviation and CV of 25.35, the majority of respondents filed and paid their taxes on time each and every time. With a mean of 3.19, a standard deviation of 0.932, and a CV of 30.39, it was determined that the headache of standing in long lines at tax offices had disappeared.

The research findings also showed that, with a mean of 3.24 within a 0.823 standard deviation and a CV of 24.14, online filing has significantly decreased filing costs. The results also showed that using ITax, which has a mean of 3.184, a standard deviation of 0.785, and a CV of 30.54, saves a significant amount of time. The findings showed that respondents' decisions to register for I-Tax were influenced by their fear of being discovered, with a mean of 3.17, a standard deviation of 0.915, and a CV of 30.56. The decision of respondents to register with I-Tax was shown to be impacted by their own willingness, with a mean of 3.60, a standard deviation of 0.758, and a CV of 30.13.

.With a mean of 3.15, a standard deviation of 0.811, and a CV of 32.11, the results also showed that respondents' decisions to register for I-Tax were affected by the benefits of Itax. With a mean of 4.11, a standard deviation of 0.845, and a CV of

21.22, the data also showed that the majority of respondents fulfilled all of their tax duties before the deadline. According to the findings, the majority of respondents never missed a deadline for filing. According to these findings, tax payer altitude has an impact on tax compliance in Kenya's Nakuru City CBD.

This finding is consistent with Berk et al. (2015), who pointed out that most people do not view taxes as significant crimes. According to a survey conducted in Turkey, the general public views tax evasion as relatively less serious than white collar crimes. indicates that the SME has a poor opinion on tax issues, which has a detrimental effect on the economy.

Karlinsky et al. (2014) contend that small and medium-sized enterprises (SMEs) view tax evasion and shoplifting as nearly equal offenses. According to Baru (2016), a firm ought to pay its fair share of taxes since taxpayers view paying taxes as a form of civic obligation. According to additional research, small and medium-sized enterprises oppose tax avoidance, particularly in industrialized nations where it impedes economic expansion. Gunz and colleagues, 2014. Mugenda 2015 came to the conclusion that SMEs typically abide by the laws they believe will help them run their companies.

4.4.9 Influence of itax cost of compliance on tax compliance

This part aligns with the third study objective, which aimed to impact the tax compliance performance of taxpayers in the central business district of Nakuru city by examining the cost of compliance. The statistical data are displayed in detail in Table 18.

Table 18: Descriptive Statistics of itax cost of compliance on tax compliance

itax cost of compliance on tax compliance	N	Min	Max	Mean	Std. Dev.	CV (%)
Overall cost incurred during compliance affect your level of compliance	272	2	5	3.31	.930	26.54
Cost of employing professional staff	272	1	5	3.35	.703	31.83
Book Keeping cost of compliance	272	1	5	3.56	.959	25.10
Software and Internet cost of compliance	272	2	5	3.51	.830	26.35
Audit of related transactions	272	1	5	4.14	.713	24.35
Online filing is too costly for me.	272	2	5	3.29	.832	29.39
The price of hiring a tax counselor is very expensive.	272	2	5	3.27	.723	23.14
It takes a lot of time and money to file tax returns.	272	2	5	3.28	.745	29.54
The expenditures associated with bookkeeping are substantial.	272	1	5	3.19	.815	29.56
Valid N (listwise)	272					

(Source, field data ,2024)

With a mean of 3.31, a standard deviation of 0.930, and a CV of 26.54, the results shown in Table 19 indicate that most respondents believed that the total cost incurred during compliance affected respondents' level of compliance. The research findings, with a mean of 3.35, a standard deviation of 0.703, and a CV of 31.83, showed that the majority of respondents agreed that the cost of hiring expert staff has an impact on the itax cost of compliance on tax compliance. The study's conclusions demonstrated that the cost of bookkeeping compliance with a mean of 3.56, a standard deviation of 0.959, and a CV of 25.10.

With a mean of 3.51, a standard deviation of 0.830, and a CV of 26.35, it was also determined that the majority of respondents felt that the expense of software and Internet compliance affected tax compliance. The audit of associated transaction compliance was found to have a mean of 4.14, a standard deviation of 0.713, and a

CV of 24.35. With a mean of 3.29 within a 0.832 standard deviation and a CV of 29.39, it was determined that respondents found online filing to be too expensive.

The study's conclusions also showed that hiring a tax consultant to help with itax compliance came at a significant cost, with a mean of 3.27, a standard deviation of 0.723, and a CV of 23.14. With a mean of 3.28 within a standard deviation of 0.745 and a CV of 29.54, the data also showed that filing tax returns required a significant investment of time and money.

The findings demonstrated that, with a mean of 3.19 within a 0.815 standard deviation and a CV of 29.56, the costs associated with bookkeeping were substantial. These findings demonstrated that in the Kenyan city of Nakuru's central business district, tax payer altitude is influenced by all of these variables related to the cost of compliance.

In their research, Tran-Nam, Evans, and Walpole (2020) pointed out that social costs and taxpayer compliance costs are two aspects of tax compliance. Administrative costs are expenses incurred by the government in the course of collecting and recovering taxes. These are incurred by the taxpayers in order to meet their obligations and the requirements of the legislation as stated (Eichfelder and Schorn, 2017). According to OECD (2001), compliance expenses pose genuine dangers, hence careful consideration should be given to this subject when doing research. This is as a result of the expenses cutting into the private company's resources. According to (Franzoni, 2019), most organizations don't cooperate when faced with high evaluations that come with hefty fines and penalties.

4.4.10 Impact of itax tax payer education on the performance of tax compliance

This part aligns with the third study objective, which aimed to impact the tax compliance performance of taxpayers in the central business district of Nakuru city

by examining the cost of compliance. The statistical data are displayed in detail in Table 19.

Table 19 : Descriptive Statistics of itax tax payer training on tax compliance

tax payer training on itax tax compliance	N	Min	Max	Mean	Std. Dev.	CV (%)
Have you ever been trained on how to use the I-Tax system.	272	2	5	3.31	.870	24.54
I'm not very skilled at using I-Tax.	272	1	5	3.25	.713	31.63
Seminars organized by KRA	272	1	5	3.56	.959	25.10
Tax Clinics organized by KRA	272	2	5	3.51	.810	26.15
Door to door campaigns are organized by KRA	272	1	5	4.14	.723	24.35
I know the need to obtain a taxpayer Personal Identification Number(PIN)	272	2	5	3.29	.832	29.39
I am accustomed to maintaining records for the necessary number of years that pertain to my earnings and expenses.	272	2	5	3.27	.723	23.14
I know which income should be deducted when computing taxable income	272	2	5	3.28	.745	28.54
I am aware that I have to report every penny of income I make during the year.	272	1	5	3.19	.885	31.56
I am aware of which income has to be subtracted in order to determine taxable income.	272	2	5	3.28	.745	27.54
I am aware that taxes must be paid within the allotted time.	272	1	5	3.19	.805	31.56
I am aware that I have to report every penny I make throughout the year.	272	1	5	3.09	.685	28.36
I've taken part in online filing instruction previously.	272	1	5	3.29	.835	29.24
I am accustomed to maintaining records for the necessary number of years that pertain to my earnings and expenses.	272	1	5	3.19	.745	28.51
Valid N (listwise)	272					

(Source, field data ,2024)

Based on Table 19's findings, the majority of respondents acknowledged that they had not received any training on how to use the I-Tax system (mean of 3.31, standard deviation of 0.870, CV of 24.54). Based on a mean score of 3.25, a standard deviation of 0.713, and a CV of 31.63, the research findings showed that the majority of respondents agreed that they were not effectively trained on how to utilize I-Tax. The results of the study demonstrated that KRA-hosted seminars had an impact on tax compliance, with a mean of 3.56, a standard deviation of 0.959, and a CV of 25.10.

Additionally, it was determined that the majority of respondents believed that tax clinics run by KRA had an impact on tax compliance, with a mean score of 3.51, a standard deviation of 0.810, and a CV of 26.15. The majority of respondents, with a mean score of 4.14, a standard deviation of 0.723, and a CV of 24.35, agreed that KRA's door-to-door initiatives had an impact on tax compliance. With a mean of 3.29 within a standard deviation of 0.832 and a CV of 29.39, it was determined that the majority of respondents were aware of the necessity of obtaining a taxpayer Personal Identification Number (PIN).

The research's findings also showed that, with a mean of 3.27 within a standard deviation of 0.723 and a CV of 23.14, respondents were conversant with maintaining records pertaining to their income and expenses for the necessary number of years. The findings also showed that, with a mean of 3.28 within a standard deviation of 0.745 and a CV of 28.54, the majority of respondents were aware of which income should be subtracted when calculating taxable income. The findings showed that respondents—with a mean of 3.09, a standard deviation of 0.685, and a CV of 28.36—knew that they had to report all money they received during the year.

It was determined that, with a mean of 3.19 within a standard deviation of 0.745 and a CV of 28.51, the majority of respondents had never attended training on online filing. The findings also showed that each of these factors had an impact on taxpayer education regarding tax compliance in Kenya's Nakuru city center.

According to Hassan, Nawawi, and Puteh Salin (2016), there are three main groups into which taxpayer education aims fall. First off, it helps spread the word about tax law and compliance. Moreover, it serves a significant role in shaping taxpayer attitudes and promoting voluntary compliance. Last but not least, it helps more people fulfill their tax obligations, which raises the amount of money collected through taxes.

Raising awareness through instruction and other forms of support can have one of two effects: it can either have no effect at all or boost tax compliance. Tax awareness and knowledge are related in that they can both be improved by improving taxpayers' understanding of and adherence to tax laws through education and facilitation of tax knowledge and awareness for the benefit of the public and government.

4.5 Correlations Analysis

A measure of the degree of correlation between two variables (Independent and Dependent) was obtained using the Pearson product-moment correlation coefficient. Between +1 and -1 is the possible range of values for the Pearson correlation coefficient, or r . A value larger than 0 denotes a positive correlation, indicating that an increase in the value of one variable causes the value of the other, whereas a value of 0 shows that there is no link between the independent and dependent variables. A

negative connection is shown by a value smaller than 0, which suggests that a drop in one variable's value would cause a drop in the other's value.

4.5.1 Correlation Analysis for fines and penalties and tax compliance performance

The findings of the correlation study between fines and penalties and taxpayer performance on tax compliance in the Nakuru city CBD are presented in this part and are displayed in Table 20. The results were analyzed and discussed appropriately.

Table 20: Correlations between fines and penalties and tax compliance performance

		Fines and Penalties	Tax compliance Performance
Fines and penalties	Pearson Correlation	1	.607**
	Sig. (2-tailed)		.000
	N	272	272

** . Correlation is significant at the 0.01 level (2-tailed).

As demonstrated by ($r=0.607$, $p=0.000$), the correlation analysis results in Table 20 showed that there was a positive and very significant link between fine and penalties on tax compliance performance. This suggested that the direction of change for both tax compliance performance and fines and penalties would be the same.

4.5.2 Correlation Analysis for taxpayer's attitude and tax compliance performance

This section presents the findings of a correlation study conducted on the attitude of taxpayers and their performance in terms of tax compliance in the central business

district of Nakuru. Table 21 presents the results, which are then analyzed and discussed in light of them.

Table 21: Correlations between tax payer’s and tax compliance performance

		taxpayer’s attitude	Tax compliance Performance
Taxpayer’s attitude	Pearson Correlation	1	.563**
	Sig. (2-tailed)		.000
	N	272	272

** . Correlation is significant at the 0.01 level (2-tailed).

Taxpayers' attitudes and their performance in terms of tax compliance in Nakuru City CBD were shown to be positively and significantly correlated ($r=0.563$, $p=0.000$), according to Table 21's correlation analysis results. This suggested that a change in a taxpayer's attitude will also affect their performance in terms of tax compliance.

4.5.3 Correlation Analysis between the performance of tax compliance and the cost of compliance

The results of a correlation study between taxpayers' tax compliance performance and the cost of compliance in Nakuru, Kenya's central business district, are presented in this section. Table 22 reported the results, which were then analyzed and discussed in light of the findings.

Table 22: Correlations between cost of compliance and tax compliance performance

		cost of compliance	Tax compliance Performance
cost of compliance	Pearson	1	.641*
	Correlation		
	Sig. (2-tailed)		.010
	N	272	272

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

The correlation analysis results in Table 22 revealed that there was a positive and a significant relationship between cost of compliance and tax compliance performance as supported by taxpayers in Nakuru city CBD, Kenya ($r=0.671$, $p=0.010$). This implied that both cost of compliance and tax compliance performance change in the same direction.

4.5.4 Correlation Analysis for between itax tax payer training and tax compliance performance

The findings of a correlation study between taxpayers' performance in tax compliance and itax tax payer training in Kenya's Nakuru city CBD are presented in this section. The findings were presented in Table 23 and interpreted and discussed accordingly.

Table 23: Correlations between itax tax payer training on tax compliance performance cost of compliance and tax compliance performance

		itax tax payer training	Tax compliance Performance
itax tax payer training	Pearson	1	.639*
	Correlation		
	Sig. (2-tailed)		.010
	N	272	272

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

Table 23 presents the findings of a correlation study, which indicated a substantial positive link ($r = 0.639$, $p = 0.010$) between itax tax payer training and tax compliance performance as reported by taxpayers in Nakuru city CBD, Kenya. It was implied by this that changes in tax compliance performance and itax tax payer training would occur simultaneously.

4.6 Regression Analysis

The goal of the multiple linear regressions was to determine how the ITax system affected the taxpayers in the Kenyan city of Nakuru's compliance with tax returns. The model summary presented in Table 25 demonstrated a multiple linear correlation coefficient of R of 0.733, signifying a positive correlation between the independent variables (fines and penalties, taxpayer attitude toward ITax use, cost of compliance, and ITax taxpayer training) and the dependent variable (ITax compliance performance).

With a coefficient of determination (R Square) of 0.547, it was determined that 54.7% of the variation in the dependent variable was attributed to the independent variable. Since other factors beyond the purview of this study account for 45.3% of the explanation, these results explain 54.7% of the total.

Table 24: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.733 ^a	.547	.547	.26192

a. Predictors: (Constant), fines and penalties, taxpayer's attitude towards use of ITax, cost of compliance and ITax taxpayer training.

Dependent Variable: I tax compliance Performance

An analysis of variance (ANOVA) was performed to see whether the data matched a regression model well. Statistical significance was set at the 5% level of analysis. It

was suggested that the regression model was a good match for the data since the observed p value from Table 26 was 0.000, which was less than $\alpha = 0.05$ (5%). This suggests that there is less than the predetermined level of significance of 5% chance that the regression model will provide an incorrect prediction effect on the dependant variable, at 0%. The regression model was so chosen.

Table 25: ANOVA^a

		Sum of				
Model		Squares	df	Mean Square	F	Sig.
1	Regression	5.242	4	2.080	27.93	.000 ^b
	Residual	4.767	268	.074		
	Total	10.009	272			

a. Dependent Variable: I tax compliance Performance

b. Predictors: (Constant), fines and penalties, taxpayer's attitude towards use of ITax, cost of compliance and ITax taxpayer training.

Table 25 illustrates the use of multiple regression analysis to investigate the impact of the independent variables on the dependent variables. The ideal configuration was

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

$$Y = 0.212 + 0.310X_1 + 0.189X_2 + 0.276X_3 + 0.196X_4$$

Where; Y represents I tax return compliance performance by Nakuru city CBD, Kenya.

X_1 represents fines and penalties

X_2 represents taxpayer's attitude towards use of ITax

X_3 represents cost of compliance

X_4 represents i tax taxpayers training

e represents Error Term

Given that the other variables were held constant, the regression coefficient of 0.310

for the fines and penalties suggested that an increase of one unit in fines and penalties would result in a 0.310 rise in the performance of tax return compliance in the CBD of Nakuru, Kenya. If all other factors remain constant, the regression coefficient of 0.189 for the taxpayer's attitude toward the usage of ITax suggested that a unit rise in that attitude would result in a 0.189 increase in the I tax return compliance performance in the CBD of Nakuru, Kenya. A unit increase in the cost of I tax compliance, with the other variables held constant, would result in a 0.276 increase in the performance of I tax return compliance in the CBD of Nakuru, Kenya, according to the regression coefficient of 0.276 for cost of I tax compliance. The I tax taxpayers training regression coefficient of 0.196 suggested that, if all other independent variables were held constant, an increase of one unit in I tax taxpayers training would result in a 0.196 rise in I tax return compliance performance in Nakuru city CBD, Kenya. In table 27, these outcomes are displayed.

Table 26: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
1 (Constant)	0.212	.257		5.059	.000
Fines and penalties	.310	.099	.266	2.112	.039
Tax payer's altitude	.189	.064	.283	2.954	.004
Cost of I tax compliance	.276	.107	.343	2.765	.007
I tax taxpayer's training	.096	.067	.281	2.671	.008

a. Dependent Variable: I tax return compliance Performance

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a thorough overview of the study's main discoveries, follows by conclusions and a discussion of the implications that arise from them. Lastly, it offers some advice and ideas for topics that could be researched further. This study's primary goal was to determine how the ITax system affected the taxpayers in the Kenyan city of Nakuru's compliance with their itax returns.

5.2 Summary of Findings

The study sought to determine the summary of key major findings of the study. The summary was categorized in terms of specific objectives.

5.2.1 Influence of I tax fines and penalties on tax compliance performance

Analysis of the study's findings showed that the most common reasons for paying fines and penalties were failure to file tax returns, agency notices to file returns, filing returns after the deadline, understating income, claiming expenses not for business, license revocation due to late tax payments, tax prosecutions, arrests for tax offenses, and KRA departure prohibition orders. In the Kenyan city of Nakuru's central business district, the study found that tax fines and penalties improved tax compliance performance.

5.2.2 Influence of tax payer's altitude on tax compliance performance

Based on the study's findings, tax payers' attitudes toward tax compliance were found to be as follows: they still did not prioritize registration; they found the ITax system to be user-friendly; most tax payers filed their taxes individually and paid them late; they no longer had to deal with the hassle of lengthy lines at tax offices;

they saved a significant amount of money by filing online; and they found that using ITax saved them a significant amount of time. The fear of being caught influenced the tax payer decision to register with I-Tax. Own willingness influenced the tax payer decision to register with I-Tax. Benefits arising from Itax influenced tax payer decision to register with I- Tax and registration was not a priority for the tax payer . Tax payer's met all their tax obligations before the deadline given and tax payer's never missed any filing deadline. This study revealed that tax payer's attitude on I tax has an positive influence on performance of tax compliance in Nakuru city CBD, Kenya.

5.2.3 Influence of cost of I tax compliance on performance of tax compliance

The analysis conducted for the study indicated that the cost of compliance, or the total amount spent on compliance, had an impact on the degree of compliance among tax payers. The tax payer had to pay for the expense of hiring professionals, bookkeeping, software, the Internet, an audit of linked transactions, and online filing. The time it took to file tax returns was expensive, and hiring a tax adviser came with a hefty price tag. Based on this study, the performance of tax compliance in Kenya's Nakuru city CBD is positively impacted by the cost of I tax compliance.

5.2.4 Influence of itax taxpayer training on performance of tax compliance

The analysis conducted for the study showed that taxpayer education impacted tax compliance in the following ways: instruction on how to use the I-Tax system; seminars that KRA holds to instruct taxpayers on the usage of I tax; KRA-hosted tax clinics and door-to-door campaigns stressing the importance of obtaining a taxpayer Personal Identification Number (PIN). The taxpayer's understanding of which income should be subtracted in order to determine their taxable income. The ability of the

tax payer to declare all income received during the year and determine which revenue needs to be subtracted in order to determine their taxable income. agreements made by the taxpayer on taxes that must be paid within the allotted time. In order to ensure consistent tax compliance, the taxpayer should undergo training on online filing and become comfortable with maintaining records of his income and expenses for the necessary number of years. The results of this study showed that tax payer education improves tax compliance in Kenya's Nakuru city center.

The study's overall findings for the four variables showed that the quantity of taxes collected, timely tax payments, and timely tax filing all had a favorable impact on the performance of tax compliance in the Kenyan city of Nakuru.

5.3 Conclusion

The study concludes the following based on the summaries.

5.3.1 Influence of I tax fines and penalties on tax compliance performance

Based on the data, the study came to the conclusion that tax fines and penalties had a positive and statistically significant impact on tax compliance performance in the Kenyan city of Nakuru ($r=0.607$, $p=0.000$). For this reason, the results suggest that tax fines and penalties affect the performance of tax compliance in Kenya's Nakuru city CBD.

5.3.2 Influence of tax payer's altitude on tax compliance performance

There is a positive and substantial association between tax payers and tax compliance with ($r=0.563$, $p=0.000$) with regard to the tax payer's altitude on tax compliance performance. The results therefore suggest that tax payers' improvements have an impact on tax compliance performance in Kenya's Nakuru city CBD.

5.3.3 Influence of cost of I tax compliance on performance of tax compliance

When it comes to the impact of the cost of I tax, there is a strong and positive correlation between the performance of tax compliance and the cost of I tax compliance ($p=0.010$ and $r=0.6710$). In light of this, the results suggest that tax compliance performance in Kenya's Nakuru City CBD is influenced by the expense of doing so.

5.3.4 Influence of itax taxpayer training on performance of tax compliance

Regarding the influence of I taxpayer training there exists a positive and significant relationship between I tax taxpayer training with $r=0.639$ and $p=0.010$. Therefore the findings imply that Therefore the findings imply that I tax taxpayer training has an influence on tax compliance performance in Nakuru city CBD, Kenya.

The conclusion drawn from this data is that fines and penalties are important tools for enforcing the law against taxpayers who do not file their taxes on time. Taxpayers believe that paying taxes equates to being socially responsible and that each taxpayer should pay their fair share of taxes. Taxpayers are discouraged from complying with the law due to high compliance costs. Therefore, it is crucial to disseminate information on tax laws and compliance to impact taxpayer attitudes and promote voluntary compliance.

5.4 Recommendation

In view of the aforementioned conclusions, the study suggests that; From the study's conclusion, the recommendation was;

The iTax platform has to be improved by KRA to make it easier to use. This can be improved by providing tax training to taxpayers through workshops, door-to-door outreach, and seminars. This will help them comprehend the significance of tax

compliance, the factors that influence it, the consequences of noncompliance, and the fines and penalties associated with it. With the help of this study, SMEs may better understand the variables affecting their compliance and take steps to mitigate them. Creating awareness should involve more than just educating taxpayers about taxes; it should also involve holding consultation meetings. The public should be better educated about preventative measures, and tax obligations should be taught in schools. The tax authorities can use the public media to educate taxpayers and alter their general impressions of taxes and the system in the context of reaching out to society.

According to the report, the Ministry of Finance should work with the Treasury to develop regulations that will deal with non-compliance concerns and other obstacles that can prevent people from paying taxes on time or from using iTax effectively. The use of the study's suggestions by several ministry stakeholders will help to forward the agenda for tax reform.

For the betterment of the website the government must focus on the website server that the website properly work in the peak months and make sure to use more and more advance technology for make easy website for the income taxpayers for filing the income tax returns. Creating awareness should involve more than just educating taxpayers about taxes; it should also involve holding consultation meetings. Government also focus about the income tax payers expectations that what problems occurs for filing the returns online that will help to the income tax payers for filing the income tax returns.

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APPENDICES

Appendix I: Informed Consent Form

Dear sir/madam,

RE: REQUEST FOR YOUR CONSENT TO PARTICIPATE IN A RESEARCH

I kindly write to request for your kind acceptance for participation in a research project. The study title is: **INFLUENCE OF I-TAX ON PERFROMANCE OF TAX RETURN COMPLIANCE AMONG SMALL AND MEDIUM ENTERISES IN NAKURU CITY CBD , KENYA.**

The potential risks and discomforts of the study are minimal. This is because you will only be expected to participate in the questionnaire. Before filling the questionnaire, all respondents will be reminded and requested to keep what is discussed to be confidential. There are no potential benefits for you as a person for participating in this study. I am requesting you to volunteer and share your opinions. No payments will be made for the information that you give or for the time that you will spend with me.

Confidentiality of any information that you provide will be maintained. The information gathered will only be utilized for this study, and after the results are released, it will be deleted.

PARTICIPATION IN THIS STUDY IS ENTIRELY VOLUNTARY. YOU MAY REFUSE TO FILL THE QUESTIONNAIRE AND YOU MAY WITHDRAW AT ANY STAGE IF YOU SO WISH.

If you accept to participate in this study, please append your signature below:

Signature of participant:  Date:

If you have any query, please contact the following:

Mobile phone 0723224840.

Yours Sincerely,

Name MOHAMUD ABDIRAHIM BORER RESEARCHER

CONSENT

I am aware that participation is completely optional and that I may end it whenever I choose, for any reason, and free. I am aware that a copy of this permission form will be sent to me. I willingly consent to participate in this research.

Participant's Signature _____ Date _____

Investigator's Signature _____ Date _____



Appendix 11: Questionnaire

PART A: PERSONAL BIOGRAPHY INFORMATION.

Please mark (✓) the item that most properly reflects your opinion as this section is based on your personal data.

1. Gender

Female

Male

2. Which age group are you in?

AGE IN YEARS	MARK
18-29	
30-39	
40-49	
50-59	
60 and above	

3. Education Qualification

Level	Mark
Primary	
High School	
Certificate	
Diploma	
Degree	
Postgraduate	

Part B: Business Information.

Which business are you involved in

Type of business	Mark
Manufacturing	
Service	
Commercial	
Others e.g bodaboda	

4. How many years have you been in the business?

Years	Tick Appropriately
0-5	
6-10	
11-15	
Over 15	

5. What are your total sales per year?

Turnover in Millions	Mark
Less than 1	
Between 1-1.9	
Between 2-2.9	
Between 3-3.9	
Between 4-4.9	
Over 5	

6. Is your business registered on the iTax platform?

Yes

No

Part C: Itax Fines And Penalties

The I tax fines and penalties on tax compliance serve as the foundation for this part. Analyzing data on tax compliance fines and penalties will be beneficial. Strongly Agree (1), Agree (2), Not Sure (3), Disagree (4), and Strongly Disagree (5) are the possible outcomes on the scale. Kindly indicate the extent to which you concur or disagree with the following assertions.

Penalties and interest paid For the reasons listed below	1	2	3	4	5
Non filing of returns					
Agency notices to file tax returns					
Filing returns after due date					
In the income declaration, claiming costs that are not related to business					
licenses being revoked due to unpaid taxes					
Charges pertaining to revenue					
Arrests brought about by tax offenses					
Departure prohibition orders from KRA					

Part C: Itax Altitude On Compliance Of Tax

The I tax altitude on tax compliance is the foundation for this part. Analyzing tax payer altitude data on tax compliance will be beneficial. Strongly Agree (1), Agree (2), Not Sure (3), Disagree (4), and Strongly Disagree (5) are the possible outcomes on the scale. Please indicate which of the following statements you agree or disagree with.

Statement	1	2	3	4	5
For me, registration is still not a top concern.					
I find the ITax system to be very user-friendly.					
It's not necessary to remind me to submit any returns.					
If I had the chance, I wouldn't file taxes.					
I always file and pay my taxes on time as an individual.					
The inconvenience of standing in line for hours at tax offices has been eliminated.					
The cost of filing has been greatly decreased via online filing.					
The adoption of ITax results in significant time savings.					
The decision to register with I-Tax was driven by your fear of being discovered.					
Your own willingness had an impact on your choice to sign up for I-Tax.					

Your decision to register with I-Tax was influenced by benefits provided by Itax.					
I still don't think registration should be a priority.					
you fulfill all of your tax responsibilities prior to the specified deadline.					
I have never been late for a filing.					

Part D: Itax Cost Of Compliance On Tax Compliance

The I tax on cost of compliance forms the basis for this section. Data analysis on the tax compliance cost of compliance will be beneficial. Strongly Agree (1), Agree (2), Not Sure (3), Disagree (4), and Strongly Disagree (5) are the possible outcomes on the scale. Please indicate which of the following statements you agree or disagree with.

Statement	1	2	3	4	5
Your degree of compliance is impacted by the total cost of compliance.					
The following are cost of compliance. The cost of hiring qualified personnel Maintaining Books Web and the Software installation					
Audit of related transactions					
Online filing is too costly for me.					
Paying a tax consultant comes with hefty expenses.					
Filing taxes is a significant investment of time and money.					
The book keeping costs are high					

Part E : Itax Tax Payer Training On Compliance Of Tax

Based on itax training on tax return compliance, this portion Analyzing data on the effect of training on tax compliance will be beneficial. There are two tables in this section. Strongly Agree (1), Agree (2), Not Sure (3), Disagree (4), and Strongly Disagree (5) are the possible outcomes on the scale. Kindly indicate the extent to which you concur or disagree with the following assertions.

Assertions.	1	2	3	4	5
Have you received any instruction on use the I-Tax system?					
I'm not very skilled at using I-Tax.					
Seminars organized by KRA					
Tax Clinics organized by KRA					
Door to door campaigns are organized by KRA					
I am aware that obtaining a taxpayer Personal Identification Number (PIN) is necessary.					
I am accustomed to maintaining records for the necessary number of years that pertain to my earnings and expenses.					
I am aware of which earnings should be subtracted to determine my taxable income.					
I am aware that I have to report every penny of income I make during the year.					
I know what income needs to be deducted in order to calculate my taxable income.					
I acknowledge that taxes are due and payable within the allotted time.					
I am aware that taxes must be paid within the allotted time.					
I am aware that I have to report every penny I earn all year long.					
I've taken part in online filing instruction previously.					
I am accustomed to maintaining records of my earnings and expenses for the necessary amount of years.					

PART F: Tax Compliance

1. Do you possess a certificate of tax compliance?

Indeed

No

2. For the previous three years, please indicate how often you have carried out the following tax compliance measures.

Parameters	2020	2021	2022
Total amount of taxes paid			
On-time tax payment			
timely submission of returns			

I sincerely appreciate your involvement.



Appendix III: ERC Clearance



REF: MKU/ISERC/3512

Date: 12 March 2024

TO: MOHAMUD ABDIRAHIM BORE

REG: MBA/2021/87455

Dear Sir/Madam,

RE: INFLUENCE OF I-TAX ON PERFORMANCE OF TAX RETURN COMPLIANCE AMONG SMALL AND MEDIUM ENTERPRISES, CASE OF NAKURU CITY CENTRAL BUSINESS DISTRICT, KENYA

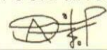
This is to inform you that **Mount Kenya University** has reviewed and approved your above research proposal. Your application approval number is **2556**. The approval period is **12/03/2024 - 11/03/2025**.

This approval is subject to compliance with the following requirements;

- i. Only approved documents including informed consents, study instruments, MTA will be used
- ii. All changes including amendments, deviations and violations are submitted for review and approval by **Mount Kenya University**
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to **Mount Kenya University** within 72 hours of notification
- iv. Any changes, anticipated or otherwise that may increase the risks or affect the safety or welfare of study participants and others or affect the integrity of the research must be reported to **Mount Kenya University** within 72 hours
- v. Clearance for export of biological specimens must be obtained from relevant institutions
- vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal
- vii. Submission of an executive summary report within 90 days upon completion of the study to **Mount Kenya University**

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke> and also obtain other clearances needed.

Yours sincerely,



The Chairman
Mount Kenya University
Ethics Review Committee

Dr. Alfred Owino, PhD.
Chairman, Mount Kenya University ISERC

Main Campus, General Kago Road, P.O. Box 342-01000 Thika.
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Email: info@mku.ac.ke, Web: www.mku.ac.ke
Chartered and ISO 9001 : 2015 Certified Institution.

Unlocking Infinite Possibilities

Appendix IV: MKU Introductory Letter



DIRECTORATE OF GRADUATE STUDIES

MBA/2021/87455

12th March, 2024

National Commission for Science Technology & Innovation (NACOSTI)
Off Waiyaki Way, Upper Kabete,
P.O Box 30623- 00100
NAIROBI, KENYA

Dear Sir/Madam,


RE: MOHAMUD ABDIRAHIM BORE - REGISTRATION NO. MBA/2021/87455

The purpose of this letter is to introduce the above named student who is pursuing **Master of Business Administration** in the department of **Accounting and Finance** in the school of **Business and Economics**.

The title of the research is "**Influence of I-Tax on Performance of Tax Return Compliance Among Small and Medium Enterprises, Case of Nakuru City Central Business District, Kenya.**" It has been cleared by the University's Ethics Review Committee (Certificate attached) and now has to proceed to the field to collect data between **March, 2024 and May, 2024.**

Any assistance accorded to the student will be highly appreciated.

Thank you.


Dr. Samuel M. Karenga, Ph.D
Director, Graduate Studies
Enc.

Mount Kenya University
P. O. Box 342 - 01000, THIKA
Office of the Director,
Graduate Studies

THE SCIENCE, TECHNOLOGY AND INNOVATION ACT, 2013 (Rev. 2014)
Legal Notice No. 108: The Science, Technology and Innovation (Research Licensing) Regulations, 2014

The National Commission for Science, Technology and Innovation, hereafter referred to as the Commission, was established under the Science, Technology and Innovation Act 2013 (Revised 2014) herein after referred to as the Act. The objective of the Commission shall be to regulate and assure quality in the science, technology and innovation sector and advise the Government in matters related thereto.

CONDITIONS OF THE RESEARCH LICENSE

1. The License is granted subject to provisions of the Constitution of Kenya, the Science, Technology and Innovation Act, and other relevant laws, policies and regulations. Accordingly, the licensee shall adhere to such procedures, standards, code of ethics and guidelines as may be prescribed by regulations made under the Act, or prescribed by provisions of International treaties of which Kenya is a signatory to
2. The research and its related activities as well as outcomes shall be beneficial to the country and shall not in any way:
 - i. Endanger national security
 - ii. Adversely affect the lives of Kenyans
 - iii. Be in contravention of Kenya's international obligations including Biological Weapons Convention (BWC), Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO), Chemical, Biological, Radiological and Nuclear (CBRN).
 - iv. Result in exploitation of intellectual property rights of communities in Kenya
 - v. Adversely affect the environment
 - vi. Adversely affect the rights of communities
 - vii. Endanger public safety and national cohesion
 - viii. Plagiarize someone else's work
3. The License is valid for the proposed research, location and specified period.
4. The license any rights thereunder are non-transferable
5. The Commission reserves the right to cancel the research at any time during the research period if in the opinion of the Commission the research is not implemented in conformity with the provisions of the Act or any other written law.
6. The Licensee shall inform the relevant County Director of Education, County Commissioner and County Governor before commencement of the research.
7. Excavation, filming, movement, and collection of specimens are subject to further necessary clearance from relevant Government Agencies.
8. The License does not give authority to transfer research materials.
9. The Commission may monitor and evaluate the licensed research project for the purpose of assessing and evaluating compliance with the conditions of the License.
10. The Licensee shall submit one hard copy, and upload a soft copy of their final report (thesis) onto a platform designated by the Commission within one year of completion of the research.
11. The Commission reserves the right to modify the conditions of the License including cancellation without prior notice.
12. Research, findings and information regarding research systems shall be stored or disseminated, utilized or applied in such a manner as may be prescribed by the Commission from time to time.
13. The Licensee shall disclose to the Commission, the relevant Institutional Scientific and Ethical Review Committee, and the relevant national agencies any inventions and discoveries that are of National strategic importance.
14. The Commission shall have powers to acquire from any person the right in, or to, any scientific innovation, invention or patent of strategic importance to the country.
15. Relevant Institutional Scientific and Ethical Review Committee shall monitor and evaluate the research periodically, and make a report of its findings to the Commission for necessary action.

National Commission for Science, Technology and
Innovation(NACOSTI),
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