

Effects of Online Tax Management on Compliance Levels of Among Micro And Small Enterprises In Nakuru Town, Kenya

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Abstract : Taxation is the main source of revenue for governments. Therefore, taxation plays a significant role in facilitating governments to provide services to its citizens, investment in infrastructure, economic growth and equitable distribution of resources. It is therefore important that a country generates the highest possible revenues from its economy. To achieve this, it is critical that tax agencies bring on board all eligible taxpayers in order to ease the burden of taxation on individuals. SMEs form the largest portion of economies especially in the developing world and operate largely in the informal sector therefore challenging governments' means in ensuring tax compliance. The Kenya Revenue Authority in order to enhance compliance has embraced the use of information technologies in taxing SMEs. However it is not known to what extent the use of information technology has contributed in enhancing Value Added Tax compliance. The study sought to assess the impact of information technology on compliance to value added tax among small taxpayers by surveying of small scale traders in Nakuru Town, Kenya. Specific objectives were: to assess how the use of electronic tax registers influence VAT compliance among Small Scale Traders in Nakuru Town; to analyze the effects of online tax filling on VAT compliance among Small Scale Traders in Nakuru Town and to determine the effects how electronic taxpayer information sharing on VAT compliance among Small Scale Traders in Nakuru Town. This research utilized the descriptive survey and aimed to get data by qualitative and quantitative technique. The target population for this study comprised of the operators of informal enterprises in Nakuru Central Business District. The study sample size was therefore made of 100 SMEs in Nakuru Town. The data collection instrument used was a structured questionnaire having simple, clear questions issued to the respondents. Secondary data was also obtained from KRA Nakuru Branch. The data collected was first cleaned in preparation for analysis. The data collected was subjected to descriptive method of analysis in terms of means and percentages. The results were then presented by means of tables and charts for ease of understanding. The study concluded that more than half of SMEs within Nakuru town have registered their businesses for VAT with KRA. However, only a few of the business have an electronic tax register machine which is calibrated by KRA, less than half of the businesses surveyed were registered with KRA online i-tax platform as taxpayers. Most of the registered businesses did it in 2016 and just a few in 2017. The study recommended that the government and KRA should encourage most SMEs to use the online (i-tax) platform to register as tax payers as it is easier and less time consuming, they will not be required to spent time going to KRA to file their returns.

Keywords: Tax Compliance, Online Tax Management, Micro and Small Enterprises

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I. Introduction

Tax is a compulsory charged by the public authority to be used to run government functions (James & Nobes, 1992). The administration of taxes is regulated b the law and every citizen or corporation is expected to participate in the payment of taxes. Tax compliance is therefore the ability and willingness of taxpayers to comply with tax laws by declaring their correct incomes and payment of the correct amount of taxes on time (IRS, 2009). From a wider perspective for tax compliance to prevail, it requires high levels of honesty, adequate tax knowledge on taxation and ability to synthesize knowledge, timeliness, accuracy, and adequate records management so as to be able to complete the tax returns and the associated taxation documents (Singh and Bhupalan, 2001).

The Kenyan tax structure comprises of various forms of taxes which include Value Added Tax (VAT), Income tax, Import Duty, and Excise duty. Income Tax contributes the highest proportion of revenue followed by VAT which contributes nearly one third. VAT is an indirect tax levied on the consumption of goods and services. This tax is charged at each stage of production and distribution of goods and services all that way to retail stage. Businesses play the role of tax agents by ensuring collection and remitting VAT to the Kenya Revenue Authority (KRA). Collection and remittance of VAT is governed by the VAT Act 2014 which requires

that for a business to qualify for VAT Registration, it should have a minimum threshold of gross annual Turnover of 5million shillings (RoK, 2014).

The Kenyan informal sector is fairly large and it contributes to an estimated 25% of the national GDP (KNBS Economic Survey, 2012). The sector has also been characterized by continuous and sustained growth from employing 910,000 people in 1993 to 8.3 Million people in 2010 therefore contributing to with an approximate 75% of the country's labor force outside agriculture. This has since improved to 11.8 million people in 2014 (KNBS Economic Survey, 2015). This sector has however been the biggest challenge for the tax man to incorporate to the tax net yet it is the largest sector in the market.

VAT accounts for a major part of taxes in the national budget in Kenya accounting for about 30% of the total taxes. However, VAT contribution has shown declining trend to total taxes collected from the year 2003 onwards (Waris et al, 2009). The government has put in place measures to curb tax cheating and enhance compliance using electronic platforms and internet connectivity. Electronic Tax Registers (ETRs) were first introduced to Kenya in 2004. In 2014, the ETRs were interconnected with online tax filling using the ITMS and in 2015, the government introduced the ITAX platform which was more interconnected ensuring that transactions are declared by both the buyer and the seller to minimize tax cheats.

The business environment in Nakuru Town is largely dominated by informal enterprises which fall into three categories: traders, manufacturing (Juakali) and the street vendors (County Government of Nakuru, 2015). An analysis of the street vendors in Nakuru Town indicated that only 12.0% were selling goods that they made or grow by themselves while the remaining 88.0% sold goods acquired from formal or informal enterprises making them conduits in the supply chains of established institutions. The 12.0% included street food vendors who prepared food at the roadside kiosks (Lubaale & Nyang'oro, 2013).

The informal sector in Nakuru plays a very important role in generating employment for a large proportion of the population. There is however a lot of conflict between the informal workers and the town's authorities since their activities are not licensed and they do not pay taxes. This presents a challenge not only to the Kenya Revenue Authority but also to the Nakuru County Revenue Department. The Nakuru county fiscal strategy paper (2015) indicates that the county government of Nakuru targets to achieve revenue growth from 254 Million in 2014/2015 financial year to 338 million in 2017/2018 financial year from single business permits. This is based on assumptions of growth of SMES on the existing ones as well as thriving on new enterprises, besides, the inclusion of more informal sector enterprises into the tax net would be necessary in achieving the objective.

This study focused enterprises with annual turnover of Five million shillings which according to this definition are small and medium enterprises majority of whom operate as informal enterprises.

1.1 Problem Statement

Taxes are the main sources of finances to governments for both operations and development expenditures. Therefore to operate efficiently, a government needs to have an efficient system of tax collection and governance. The citizens also have a duty to voluntarily cooperate with the government tax authorities by declaring their correct incomes and taxes and payments on time. This however does not happen in Kenya, majority of taxpayers are forced to comply to their tax obligations through enforcement of tax laws, fines and penalties. The Kenya Revenue Authority has moved to widen its VAT tax base in an ambitious plan seeking to raise the number of active Kenyan tax payers to 4 million from the 1.6 million. Under this new plan, the KRA seeks to embrace digital technology to rope in additional players in the small and medium sized enterprises (SMEs) category who have often eluded the taxman's scrutiny. It is known that SMEs do not register voluntarily, while those which do, often fail to keep adequate records, file tax returns and settle their tax liabilities promptly hampering the taxman's efforts to mobilize revenue in the bracket. A number of strategies leveraging on technology have been put in place to enhance new taxpayer registration, filling of returns and tax compliance. These include online tax registration and filling of returns, use of electronic tax registers at the point of sales as well as leveraging on information technology to share taxpayer information with other public institutions. However, the taxman is yet to achieve its targets on taxing of SMEs (IEA, 2012). This study therefore sought to analyze how the use of these online tax management platforms has contributed to tax compliance among SMEs by focusing on VAT compliance among small scale traders in Nakuru Town CBD.

1.2 Objectives of the Study

1. To assess how the use of electronic tax register machines influence VAT compliance among SME Traders in Nakuru Town.
2. To analyze the effects of online tax filling on VAT compliance among SME in Nakuru Town.

1.3 Scope of the Study

The study was done in Nakuru Town and covered small and medium enterprises operating there. It analyzed how electronic tax registers and online tax filling is contributing to compliance with VAT.

II. Research Methodology

2.1 Introduction

This chapter puts into perspective the techniques, data collection instruments, the sampling design, procedures, the instruments reliability and validity. It highlights the techniques and methodology of research study which will be carried out and the data analysis and presentation procedures that were employed.

2.2 Research Design

This research utilized the descriptive research design which aimed to get data by qualitative and quantitative technique. The design is very useful in applied social research (Kothari, 2006). This is concerned with people, what they do, their livelihood, behaviour and how they contribute to commonly prevailing problems as well as how they can be solved in the society and organizations. This design is cost-effective, allows the use of multi-data collection techniques such as interviews and questionnaires. The results obtained can be generalized to other related cases. It also ensured that the data obtained can give validated findings when it is analyzed (Mugenda and Mugenda, 1999). The current study investigated the VAT compliance and the factors contributing to it. Thus survey research design was suitable in obtaining opinion from the small scale business operators.

2.3 Target Population

The target population for this study was comprised of the operators of informal enterprises in Nakuru Central Business District who are 18 years and above. Nakuru Town has been a major agricultural centre which has gradually shifted to industrial and tourism economy. According UNECA, (2015) it is estimated that the population of SMES in Nakuru Town registered with the KRA, Nakuru Branch is 5,342. The list of small and medium enterprises registered for VAT and are operating in Nakuru Town was obtained from KRA, Nakuru Office. The distribution of enterprises is as follows:

Table 1: Distribution of Target Population

Population Category	Population
Whole sellers	542
Retailers	3329
Manufacturers	608
Service	763
Total	5242

2.4 Sample Size and Sampling Technique

Due to the large population of SMEs operating in Nakuru Town a sample was drawn using random sampling since it is difficult to study the whole population. Nassiuma (2000) formula was used in determining the population size. According to Nassiuma:

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

Where:

n= Sample size

N= Population

C_v= Coefficient of variation (take 0.5)

e= Tolerance at desired level of confidence, take 0.05 at 95% confidence level

Upon substitution:

$$n = \frac{5342 * 0.5^2}{0.5^2 + (5342 - 1) * 0.05^2}$$

n= 100

The study sample size was therefore 100 small scale business operators in Nakuru Town. Distribution of the study sample is shown on Table 2

Table 2: Distribution of the study sample

Population Category	Population	Sample Size
Whole sellers	542	10
Retailers	3329	64
Manufacturers	608	12
Service	763	15
Total	5242	100

2.6 Research Instruments

The main data instrument used was a structured questionnaire having simple, clear questions issued to the respondents. The questionnaires was designed to seek information the VAT compliance of SMEs in Nakuru. The questionnaire elicited information on compliance level, and the influence of: use of online tax filling,

electronic tax registers and electronic tax information sharing. Questionnaires were preferred in this study because they allowed investigation with an ease of accumulation of data in a highly economical way (Graveter & Forzano, 2003). The questionnaires were designed using both open ended and closed ended questions. Secondary data was also obtained from the KRA Nakuru Branch regarding the level of VAT compliance and the use of the various information technologies under investigation.

2.7 Validity and Reliability of Data Tools

Validity of the instruments was established by experts' judgment. The researcher therefore reviewed the instruments based on experts' recommendations. This entailed enlisting the views and comments of the supervisor who will verify the appropriateness of the items in the questionnaires. This ensured that invalid items were eliminated and any appropriate item not covered was included (Mugenda and Mugenda, 1999).

The reliability of research instrument was assured by the use of Cronbach analysis method on the pilot questionnaires. Piloting was done among small scale business operators in Njoro Town. According to Mugenda and Mugenda (1999) this would ensure the results obtained can be replicated and even counterchecked through future related research studies out in the field to ensure that the correct concepts, variable and issues are being measured in the study process.

2.8 Data Processing and Analysis

Analysis of data is a process of inspecting, cleaning, transforming and modelling data with the goal of highlighting useful information, suggesting conclusion and supporting decision making. Data collected was first cleaned in preparation for analysis. Data collected was subjected to descriptive method of analysis in terms of means and percentages. The results were then presented by means of tables and charts for ease of understanding.

III. Findings

3.1 Use of electronic tax register

3.1.1 Registration for VAT with KRA

The study sought to determine whether the businesses were registered for VAT with KRA and the findings are as shown in figure:

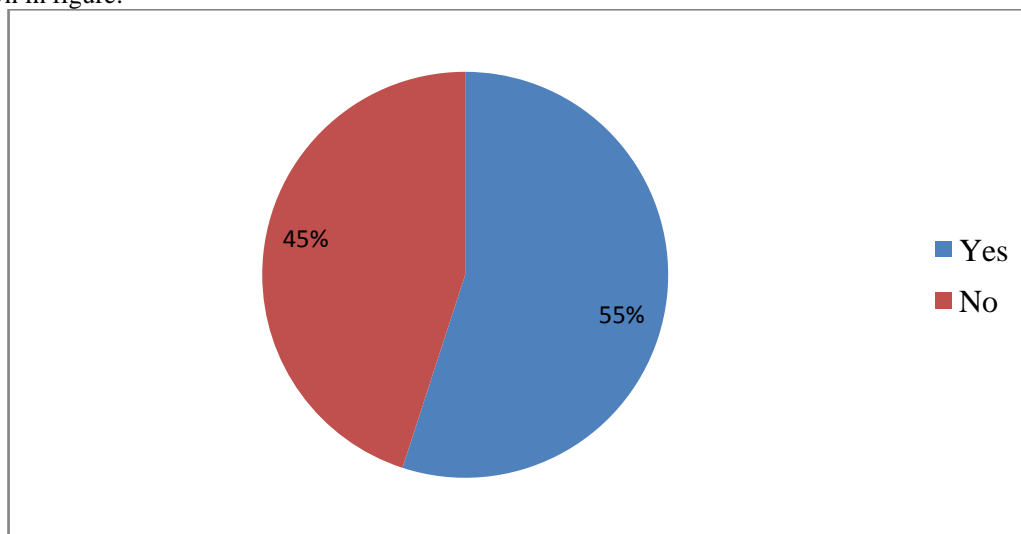


Figure 1: Registration for VAT with KRA

It was established that 55% of the respondents agreed that their businesses were registered for VAT with KRA while 45% were not registered.

3.1.2 Respondents opinion on how electronic tax registers affects their businesses

The study sought respondents opinion on how electronic tax registers affects their businesses and the findings are as shown in Table 3:

Table 3: Respondents opinion on how electronic tax registers affects their businesses

Statements	Strongly agree	Agree	Undecided	Disagree	Strongly disagree
My business is registered for VAT with KRA	20%	20%	0%	37%	23%
We have an Electronic Tax Register Machine (ETR) for the business	14%	31%	0%	32%	13%
Our ETR Machine has been calibrated by the KRA	20%	16%	0%	55%	0%
We submit our ETR Machines for audit by qualified tax agent	31%	14%	0%	45%	10%
We subject our ETR machines to KRA for checks	10%	21%	0%	50%	19%
All transactions carried out are issued with ETR receipt	26%	19%	0%	48%	8%
We do monthly returns for all transactions with ETR	16%	29%	0%	50%	5%

On whether respondent’s businesses were registered for VAT with KRA 20% of the respondents strongly agreed, 20% agreed, 37% disagreed and 23% strongly disagreed, none of them were undecided. Concerning whether respondents have an Electronic Tax Register Machine (ETR) for the business 14% of the respondents strongly agreed, 31% agreed, 32% disagreed and 13% strongly disagreed, none of them were undecided. Regarding whether respondents ETR Machine has been calibrated by the KRA 20% of the respondents strongly agreed, 16% agreed, 55% disagreed, none of them strongly disagreed or were undecided. On whether respondents subject their ETR machines to KRA for checks 10% of the respondents strongly agreed, 21% agreed, 50% disagreed and 19% strongly disagreed, none of them were undecided.

Concerning whether all transactions carried out in businesses are issued with ETR receipt 26% of the respondents strongly agreed, 19% agreed, 48% disagreed and 8% strongly disagreed, none of them were undecided. Regarding whether respondents were doing monthly returns for all transactions with ETR 16% of the respondents strongly agreed, 25% agreed, 50% disagreed and 5% strongly disagreed, none of them were undecided.

3.2 Online tax filing

3.2.1 Online registration of businesses in KRA online (i-tax) platform

The study sought to determine whether respondents businesses were registered with KRA online (i-tax) platform as tax payers and the findings are as shown in Figure 2:

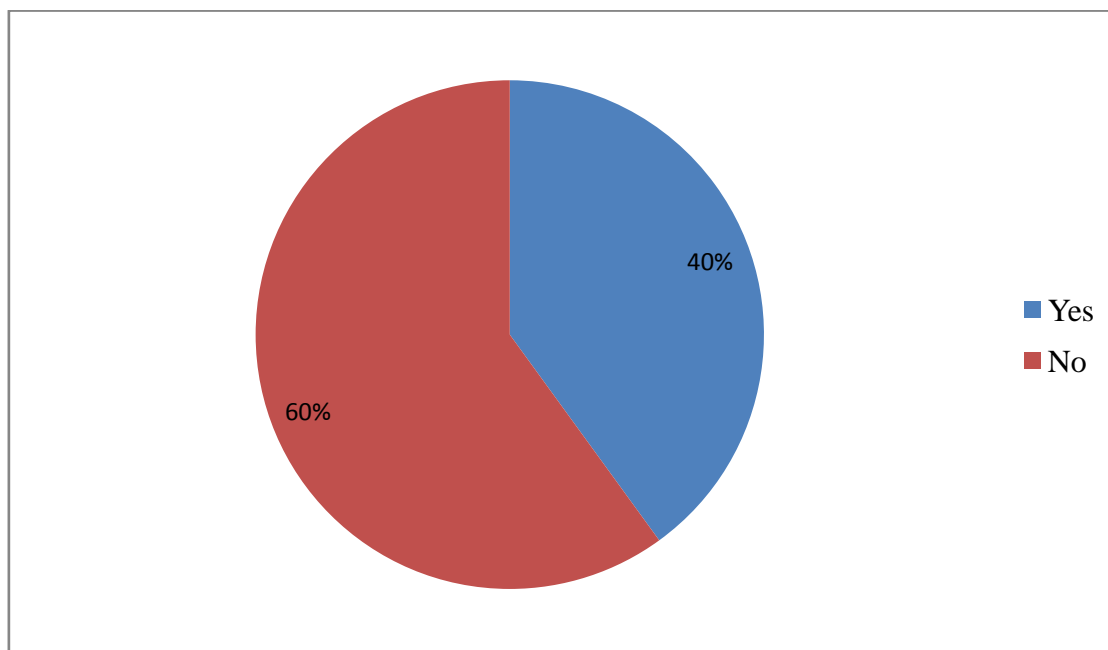


Figure 2 : Online registration of businesses in KRA online (i-tax) platform

It was established that 40% of the respondents agreed that their businesses were registered in KRA (i-tax) platform as tax payers while 60% said they were not registered.

3.2.2 When businesses registered as i-tax tax payers

The study sought to determine when respondents registered their businesses as i-tax tax payers and the findings are as shown in Figure 3:

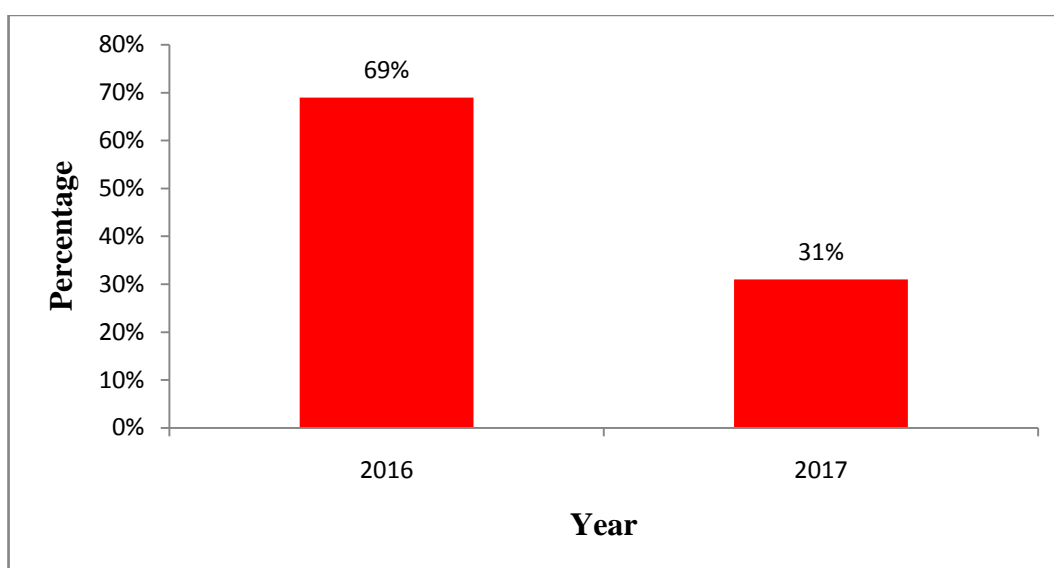


Figure 3: When businesses registered as i-tax tax payers

The study established that majority of the respondents 69% registered their business as i-tax tax payers in 2016 while the minority 31% had not registered in 2017.

3.2.3 Respondents opinion regarding use of I-Tax

The study sought respondents opinion regarding use of i-tax and the findings are as shown in Table 4:

Table 4: Respondents opinion regarding use of I-Tax

Statements	Strongly agree	Agree	Undecided	Disagree	Strongly disagree
We have registered for all Tax categories (VAT and Income Tax)	20%	25%	0%	45%	10%
We ensure that all VAT returns are made on I-Tax every month	0%	45%	0%	55%	0%
All transactions are posted through the I-Tax	0%	25%	0%	62%	13%
The time take in filling tax returns in I-Tax is very short	25%	44%	0%	31%	0%
The use of I-Tax has increased the number of people complying with Tax requirements	51%	49%	0%	25%	0%
I-tax enables easy payment of Taxes through online invoice applications	35%	40%	0%	50%	14%
I-tax has made it possible for small businesses to understand their tax liabilities	13%	23%	0%	50%	14%

On whether respondents have registered for all Tax categories (VAT and Income Tax) 20% of the respondents agreed, 65% disagreed and 10% strongly disagreed, none of them were undecided or strongly agreed. Concerning whether respondents ensure that all VAT returns are made on i-tax every month 35% of the respondents agreed and 55% disagreed, none of them strongly disagreed, were undecided or strongly agreed.

Regarding whether all business transactions are posted through the I-Tax 25% of the respondents agreed, 62% disagreed and 13% strongly disagreed, none of them were undecided or strongly agreed.

On whether the time take in filling tax returns in I-Tax is very short 25% of the respondents strongly agreed, 44% agreed and 31% disagreed, none of them were undecided or strongly disagreed.

Concerning whether the use of I-Tax has increased the number of people complying with Tax requirements 51% of the respondents strongly agreed and 49% agreed, none of them were undecided, disagreed or strongly disagreed. On whether i-tax enables easy payment of Taxes through online invoice applications 35% of the respondents strongly agreed, 40% agreed and 25% disagreed, none of them were undecided or strongly disagreed.

Regarding whether i-tax has made it possible for small businesses to understand their tax liabilities 13% of the respondents strongly agreed, 23% agreed and 50% disagreed and 14% strongly disagreed, none of them were undecided.

IV. Conclusions

The study also concluded that: less than half of the businesses surveyed were registered with KRA online i-tax) platform as taxpayers. Most of the registered ones did it in 2016 and just a few in 2017. Less than half had registered for both tax categories that is VAT and income tax. The businesses don't make all their VAT returns on i-tax every month. Also all their transactions are not posted through i-tax. Most businesses seemed to agree that: the time take in filling tax returns in I-Tax is very short, the use of I-Tax has increased the number of people complying with Tax requirements and i-tax enables easy payment of taxes through online invoice applications.

Finally the study concluded that: use of electronic media has made it possible to know the taxpayer compliance of individual businesses, electronic sharing of taxpayer information has made non compliant firms to lose business, electronic taxpayer information allows anyone to know your tax compliance status and use of electronic taxpayer information sharing has made it mandatory for businesses to comply with taxation laws.

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