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Attitude towards Business Taxation System in Kenya: An empirical investigation of Tax payers in Nyamira County

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Abstract: **Attitude towards Taxation system has always been an issue that leads to tax compliance among business taxpayers in many developing countries including Kenya.. The main purpose of this paper was to examine the attitudes of business tax payers on the taxation system in Kenya. The data for this study was collected using a well structured questionnaire from 149 respondents who comprised owners of SMEs in Nyamira Town. By applying simple percentages and descriptive statistics, the data collected was analysed. The Findings indicated that still many tax payers perceive the Kenyan tax system as unfair to Kenyans. Also, it was revealed that significant number of respondents indicated that their neighbors are paying tax honestly. This study concluded that public awareness needs to be conducted to inform taxpayers about the importance of paying tax and how tax is important in economic development of a nation like Kenya.**

Keywords: **taxation system, business taxpayers, economic development.**

1. INTRODUCTION

Taxation provides a predictable and stable flow of revenue to finance development objectives. As such, the 2002 Monterrey Consensus recognized taxation's key role in domestic resource mobilisation, an acknowledgement of the sentiment echoed at the 2008 United Nations Doha conference on Financing for Development. Taxation plays a key role in helping African countries to reach their Millennium Development Goals (MDGS) (Oludele 2015) The role of taxation goes further than promoting economic growth. Taxation shapes the environment in which international trade and investment takes place. Certainty and consistency of tax treatment, the avoidance of double taxation, and efficient tax administration are all important considerations for international businesses. Its political importance also goes far beyond providing income to finance public sector investments, and the basic needs of the population.

Historically, state building has been closely connected to the development of the tax system (Tilly 1992;Webber and Wildavsky 1986). In Mauritius, the tax system has been a key factor for the development of an accountable and functioning state. When the state depends on tax income from wide sections of citizens and businesses, the authorities have incentives to expand their presence also in rural and peripheral areas. Tax evasion and the siphoning of funds to tax havens deprive African countries of the fiscal benefits of growth. The development of effective tax responses to counter these challenges is also central to Africa's development agenda (Pfister 2009). In Kenya, the colonialists imposed hut tax where each household used to pay certain amounts of money to the Governor. The 1901 Hut Tax Regulation imposed a tax of one rupee, payable in kind or through labor, upon every native hut in British East Africa. A subsequent amendment to the law allowed tax to be levied specifically on the owner of the hut (Waris, 2007). The Kenya's tax system has undergone more or less continual reform over the last twenty years. On the policy side, rate schedules have been rationalized and simplified, a new value-added tax introduced, and external tariffs brought in line with those of neighboring countries in East Africa.

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At the same time, administrative and institutional reforms have taken place. Most remarkable is the creation of the semi-autonomous Kenya Revenue Authority (KRA) in 1995, which centralized the administration of tax collection (Muriithi, 2003). KRA has been able to collect and grow taxes efficiency, effectiveness and progressively (KRA Annual Report, 2013/2014).

Tax collection has been progressive in nature where KRA has collected cumulative revenue in the period July 2013 - June 2014 Kshs. 963.8 billion compared to Kshs. 800.5 billion collected in the period July 2012 - June 2013 which represented a revenue growth of Kshs. 163.3 billion or 20.4 percent. To finance the Kshs. 2.234 trillion budgets for this financial year, the government expects to raise KShs. 1.358 trillion from ordinary revenue during the period (Financial Budget, 2015). Online tax filing was invented in United States, where the Internal Revenue Service's (IRS) began offering tax return e-filing for tax refunds only (Muita, 2011). Over time, the usage of the online filing system has been adopted by at least one out of five individual taxpayers. This however, has been as a result of numerous enhancements and features being added to the software over the years. Today, electronic filing has been extended to other developed countries like Chile, Malaysia, Canada, Italy, United Kingdom, Ireland, Germany, France, Netherlands, Finland, Sweden, Switzerland, Australia, Norway, Singapore, Brazil, Mexico, India, China, Thailand, Malaysia and Turkey (Ramayah, Ramoo&Amlus, 2008). Similarly, developing countries have also been embracing electronic filing of tax returns.

Some of the countries, which are embracing the electronic filing, include Kenya, Rwanda and Nigeria (Muita, 2011). In Kenya, the iTax system was launched in Kenya in the year 2011. The system allows businesses and individuals to file their returns online, view their tax dues and monitor tax status 24 hours a day, upload tax files, request for compliance certificates and actual tax payments. The system is set to integrate more than 30 banks to ensure that most taxpayers are covered. The iTax system has simplified, hastened and secured the tax compliance process, thus bringing down the cost of tax compliance in logistics. Continued implementation and operationalization of the iTax system in Kenya is expected to enhance revenue yield through deepening of the tax base, reducing compliance cost and improving revenue administration (Economic Survey, 2015). Kenya‟s tax system has performed better than average for Africa in the past three decades (Nyareru, Kibati and Ragama (2017). In 1989/90, Kenyas tax revenue collection was 23.3% of GDP. Revenue collection peaked in 1995/96 at 30.4% of GDP, and thereafter, declined to 20.5% of GDP in 2002/03, before increasing to 22.0% in 2007/08 (IMF, 2008). This paper is an attempt to investigate the attitude towards business taxation in Kenya with reference to small and medium enterprises in Nyamira town.

2. REVIEW OF PREVIOUS LITERATURE

This section will examine the previous literature on taxation system in Kenya and around the world. Theoretical perspectives have also been analysed. Various studies have been carried out by different researchers both locally and internationally in relation to the subject matter. For instance, Brondolo (2009) conducted a study on the challenges facing tax collection, strategies and measures responding to the challenges among EU countries during the global financial and economic crisis of 2008. The study posited that an economic downturn tends to worsen taxpayer compliance in important aspects. Consequently, tax agencies were encouraged to develop tax compliance strategies that are structured around two objectives: containing the growth in noncompliance and helping taxpayers to cope with the crisis.

Palil and Mustapha (2010) studied the tax knowledge and tax compliance determinants in Self-Assessment System in Malaysia. The study used a multiple method of questionnaires (direct and hypothetical questions) and analysis (stepwise multiple regressions and multiple regressions) to analyze the collected data. The study concluded that in the self-assessment system in Malaysia, tax knowledge has a significant impact on tax compliance and the level of tax knowledge varies among respondents. Males, Malaysian, residents of Eastern region, high in come earners and taxpayers who have attended tax courses appear to be the most knowledgeable taxpayer groups. The results also established that tax compliance was influenced by probability of being audited, perception of government spending, penalties, personal financial constraints, and referent group.

In Uganda, Tusubira andNkote (2013) examined the relationship between income tax proficiencies and income tax compliance among SMEs. The study adopted a cross sectional descriptive survey design and gathered data from 326 out of 377 SMEs from Mbale district. The study established that income tax proficiencies are multi-dimensional and significant predictors of income tax compliance. The study recommended that to improve income tax proficiencies in SMEs in Uganda, intensive Uganda Revenue Authority should carry out tax education with practical knowledge to the SMEs' personnel involved in tax matters for efficient compliance.

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A study by Mutascu and Danuletiu (2013) investigated the relationship between tax revenues and literacy level, using a panel model approach in Romania. The dataset covered the period 1996 to 2010 and included 123 countries. The estimations suggested that the assumed function is nonlinear, with inverted-U and U-shaped curves. More precisely, a very low literacy level was associated with reduced tax revenues. Furthermore, the study found that government inputs increase as the literacy level increases, reaching a maximum point. Beyond this level, the tax revenues decrease even if the literacy has an ascendant tendency, registering a minimum level. Finally, the tax revenues increase in a parallel manner with the literacy index.

In Kenya, Mararia (2014) also examined the effect Integrated Tax Management System (ITMS) on tax compliance by Medium and Small Taxpayers. The study targeted a sample of 100 SMS and a descriptive survey design. Data was collected using self–administered questionnaires and an interview guide. The study findings established that there was enough proof to conclude that adoption of integrated tax management system is associated with high levels of tax compliance. It also provided evidence that tax compliance cost, tax knowledge and education, and tax fines and penalties are contributory factors in tax compliance.

In their study, Muturi and Kiarie (2015) studied the effects of online tax system on tax compliance among small taxpayers in Meru County, Kenya. The study adopted a descriptive research design and data was collected using structured questionnaire, which covered all the variables of the study from 60 sampled taxpayers from Meru county tax District. The study findings revealed that online tax system does affect tax compliance level among small taxpayers in Meru County.

Gwaro, Maina & Kwasira (2016) assessed the level of awareness regarding online filing of tax returns in the context of the Small and Medium Enterprises in Nakuru. The study found that only the computer literacy had significant effect on the influence of tax compliance levels amongst small and medium enterprises in Nakuru County.

Oludele (2015) examined the factors that correlate with tax compliance of 575 small and medium size companies in Cameroon are discussed from a survey of companies in the manufacturing and wholesale sectors. High registration cost and time-consuming processes promote tax non-compliance. The perception that tax system is corrupt discourages registration and filing compliance. When there are too many compliance hurdles, the probability of filing compliance is reduced. However, a fair and static system encourages filing and registration compliance. A clear and consistent tax system promotes filing compliance. Authorities that understand their responsibilities and are willing to respond to enquiries during the registration process promote tax compliance in general.

Ngigi and Kioko (2017) examined the effect of integrated tax management system on tax compliance by small and medium enterprises in the Central Business District, Nairobi County. For this a descriptive research design was adopted. A sample of 173 SMEs was selected through stratified random sampling. The multiple linear regression was used to establish the relationship between the independent and dependent variables. The study established that the amount of fines and penalties paid and tax consulting/filling expenses associated with integrated tax management system have apositive and significant relationship with tax compliance. The study concluded that the integrated tax management system influences tax compliance by small and medium enterprises in the Central Business District, Nairobi County. The study recommends that KRA should increase the fines and introduce stringent penalties for non-compliance since this would encourage small and medium enterprise owners to comply with taxes.

Nyareru et.al (2017) analyzed factors influencing effective implementation and utilization of electronic tax registers by SMEs in Nakuru town. Compliance cost, training, tax compliance and perceptions were considered. Explanatory design was adopted with a target population of 680 SMEs. Stratified random sampling sampled 197 participants who were administered with semi-structured questionnaires. Collected data was analyzed descriptively and inferentially. Findings revealed that online submission of tax returns eliminates costs of manual filing (mean=4.213), it's affordable to acquire and install ETRs (mean=3.233), ETR requires continuous systems improvement (mean=4.322), non-registered SMEs are heavily penalized (mean= 3.980) and lack of information affects VAT compliance (mean=4.256). There were significant correlations between compliance cost, training (r=0.763), tax compliance level (r=0.733), perceptions to tax compliance (r=0.756, 0.763, 0.733 and 0.751) and effective implementation and utilization of ETRs. Consequently, small numbers of transactions make ETRs cumbersome, online VAT submission eliminates manual filing costs, training SMEs on ETR and tax compliance fosters public confidence. Thus, filing of VAT returns online should be made simple and efficient, there

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should be regular SME training on ETR systems, non-registered SMEs should be registered and there should be greater enforcement of tax laws. The review of studies indicated that still more comprehensive studies needs to be conducted to reveal the attitude towards taxation system in Kenya

3. METHODOLOGY

The data for this study was collected from 149 small and medium enterprise owners in Nyamira town using a well structured questionnaires that were prepared using closed ended objective questions and five-point likert scaled questionnaires. The researcher collected date personnaly by the use of drop and pick technique after ensuring validity and reliability of the research instrument. The research adopted Frequency analysis, percentages and Descriptive statistics resulting to mean and standard deviation. Ethical issues were taken into considerations as the researcher assured respondents that the data collected will be only used for academic purposes and will be treated with utmost confidentiality.

4. FINDINGS AND DISCUSSION

4. 1 Views on Business Tax System in Kenya

The respondents were asked to raise their views on the tax system in Kenya and the results are as in table 1

Table 1: Views on Business Tax System in Kenya

Views	Frequency	Percentage
Unfair	98	66
Fair	51	34
Total	149	100

The extent of the effect of tax compliance and taxpayer's behavior is not well understood in Kenya. This has led to different perspective on the fairness of the Kenyan tax system. From the table 4.666% of the respondents indicated that the Kenyan tax system is unfair, as 34% indicated that it is a fair system.

4.2. Extent of Agreement that the Factors Influence One's View on Business Tax system in Kenya

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

Table 2: Extent of Agreement that the Factors Influence One's View on Business Tax System in Kenya

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

Source: Research Data

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From table 2, most respondents disagreed (Mean=2, and the std deviation is insignificant) that they are paying a fair share of tax; that their neighbours, friends, etc are reporting and paying tax honestly; that tax laws are easy to understand i.e. calculation of tax, filing and paying dates; that motive to high business profit by operating illegal business, underreporting of profits etc; that giving rewards to taxpayers and use of informants by KRA to report tax evaders influence their view on Business tax system in Kenya. Most respondents were indifferent (Mean=3, and the std deviation is insignificant) that the paying of tax fines and penalties; the aggressive tax enforcement efforts by KRA e.g. ensuring tax audits and prosecutions of tax evaders take place; the high degree of being detected for non-payment of tax; the fear of tax audits and prosecution; the feeling that tax is an obligation and believing in no corruption; that the government is achieving its tax objectives and is fighting corruption; and lastly the harassments by KRA influenced their view on Business tax system in Kenya.

5. CONCLUSION, LIMITATIONS AND RECOMMENDATIONS OF THE STUDY

The Findings indicated that still many tax payers perceive the Kenyan tax system as unfair to Kenyans. Also, it was revealed that significant number of respondents indicated that their neighbors are paying tax honestly. This study concluded that public awareness needs to be conducted to inform taxpayers about the importance of paying tax and how tax is important in economic development of a nation like Kenya. This study examined the perceptions towards taxation system by SMEs in the Nyamira Town thus its findings are limited to SMEs to Nyamira town and may not be generalized to SMEs in other counties in Kenya since the level of tax understanding and knowledge is different. The study used a data collection form to obtain data for the study. The questions were structured in such way that respondents provided to closed-ended questions and thus ignoring the other qualitative views on tax System. The study also did not cover other qualitative aspects like the attitude of the tax payer, corruption and tax systems which also influence tax compliance. The study suggests that further research should be conducted on the influence of access to information on effective implementation and utilization of electronic tax registers by SMEs in Kenya. Further, more research should be done to investigate the influence of perceptions towards ETR on tax evasion by SMEs.

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