Effect of Tax Reforms on Compliance among Small and Medium Enterprises in Kenya: A Case Study in Bomet Town

[1]STEPHEN KIRUI, [2]DANIEL KAMAU, [3]DR KEPHA OMBUI

[1]student of Masters in Business Administration at Jomo Kenyatta University of Agriculture and Technology, Kenya
[2]adjunct Lecturer at Jomo Kenyatta University of Agriculture and Technology, Kenya
[3]lecturer at Jomo Kenyatta University of Agriculture and Technology, Kenya

Abstract: the main objective of this study was to assess the effect of tax reforms on compliance among small and medium enterprises operating in Bomet County. The specific objectives were to establish the effect of online filing on compliance among small and medium enterprise in Bomet Town, to establish the effect of taxpayer education on compliance among small and medium enterprise in Bomet Town, to determine the effect of stringent tax penalties on compliance among small and medium enterprise in Bomet Town and to assess the effect of using simple tax regimes on compliance among small and medium enterprise in Bomet Town. The study adopted a descriptive design. The total population targeted 350 SMEs registered by the county government of Bomet revenue department. The study used cluster sampling and simple random sampling technique. The sample size of 183 of total population was selected. The study used questionnaire to collect primary data from the SMEs in Bomet town. Questionnaires responses were analyzed using the SPSS software. The results of the study were presented using graphs and tables. The study concluded that, simple tax regime had the greatest effect, online tax filing came second, and tax payers' education and training was third while stringent tax penalties had the least effect on the SMEs turn over tax compliance. Therefore the study recommends that the KRA team should work closely with the SMEs to avoid cases of default due to down time of the net or failure of the systems. Further KRA should remove the many logging procedures for the customers except the password to make the process simple. Further KRA should continue with their education and training programmes so as to ensure that they keep abreast with the changing business environment. Also KRA should reduce on the amount of tax on their various products which in most cases was too high for the SMEs to meet. Further the process of knowing how much tax one is supposed to pay should be customized for the SMEs to always calculate for themselves the amounts beforehand. Finally the period for imposing the penalties should not come immediately one fails to make their returns but some warnings should be given like two weeks before the penalties are imposed. Further KRA should come up with short coded messaging systems to act as reminders when the tax returns due date is approaching so as to prevent many penalties which occurs because one may forget.

Keywords: KRA, Tax Reforms, Small and Medium Enterprises.

1. BACKGROUND OF THE STUDY

The exact meaning of tax compliance has been defined in various ways. Kirchler (2007) perceived a simpler definition in which tax compliance is defined as the most neutral term to describe taxpayer's willingness to pay their taxes. Similarly, tax compliance is also defined by several tax authorities as the ability and willingness of taxpayers to comply with tax laws, declare the correct income in each year and pays the right amount of taxes on time (IRS, 2009; ATO, 2009; IRB, 2009).

Another definition of tax compliance is a person's act of filing their tax returns, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority (Singh, 2003). Furthermore, tax compliance has also been segregated into two perspectives, namely compliance in terms of administration and compliance in terms of completing (accuracy) the tax returns (Chow, 2004). Taxpayers' behavior towards tax system has evoked great attention among many Revenue Authorities in the World especially in Developed Countries.

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

Empirical evidence on the ground shows there has been hostility between the taxpayers and tax collectors on issue relating to tax compliance- how about tax evasion cases reported daily in our local newspaper (Daily Nation, July 7, 2006, pg 3) and outward resistance from taxpayers for example the recent protest by taxpayers over implementation of Electronic Tax Registers. Hostility towards tax compliance date back to the History of Taxation, "Taxes are considered a problem by everyone. Not surprising, taxation problems date back to the earliest recorded history" (Director, Taxworld Organization, April 7, 1999).

According to the Director, Taxworld Organization, (1999), during the Roman empire, in 60A.D, Boadecia queen of East Anglia led a revolt that can be attributed to corrupt tax; in Great Britain, the 100 years war (1337-1453) between England and France was renewed in 1369 by among other key factors, the rebellion of the nobles of Aquitaine over the oppressive tax policies of Edward, The Black Prince and in Post-Revolution America, Tax Act of 1864 was challenged several times. Hostile tax payer's behavior implies that given a chance taxpayers would not comply with tax laws. Perhaps, understanding the taxpayers' behavior in terms of factors which influence their attitude towards tax compliance and how to influence these factors would be a solution to this problem.

Tax compliance is the willingness of entities to comply with law and administration on taxation without being forced to (Bjork, 2003). Tax authorities should be fair, transparent and accountable in helping the taxpayers' to comply with the tax rules. They should bring to account those who intentionally and knowingly avoid their obligations. Bjork said that improving compliance and reducing non-compliance means more tax collection.

Small and Medium Enterprises in Bomet Town:

The SMEs differ from country to country, region to region and there is no universal definition. The concept of SMEs is dynamic (Masinde, 2010) and they characterized by innovation, evolution and face many uncertainty. Masinde noted that SMEs are small, family owned, offering primary goods and services and lack both organizational and management structures. Central Bank of Kenya defines SMEs as enterprises with less than 50 employees. However, for tax purposes, KRA (2011) alludes that all business with a turnover of less than Kshs 5 Million qualifies as small and medium enterprises.

In 2008, Kenya introduced turnover tax (TOT) to boost collection on revenue, increase tax administration efficiencies and reduce collection costs in SMEs sector. TOT has a very low rate compared to most taxes calculated on gross income without any deductions (KIPPRA, 2013). TOT is charged at 3% of sales turnover and is submitted on quarterly to tax agency. It is targeted at enterprises with a turnover of between Kshs. 500,000 and Kshs. 5 million per annum. The benefits of TOT include simplified tax procedures, less tax computation, easy filing of tax returns and simple record keeping. All these reduces cost of tax compliance (KRA, 2011).

According to KRA (2015) total revenue collected from the TOT system in 2015 was Kshs. 221 million. This was below target of Kshs. 645 million in 2015. On TOT recruitment of new taxpayers, the performance has been below 50% on average. In year 2008/09, the number of SMEs which were registered with TOT as per the report from county revenue was 859 and 930 in 2014 and 2015 respectively which below the target. This is a problem to the government in its endeavor to ensure that there is sufficient revenue to support its operations (Mwangi, Gachoka & Siagi, 2010). Cobham (2012) argued that a large segment of the informal sector, such as SMEs in Bomet Town exhibit minimal tax compliance levels. It is for these reason that researcher undertook to identify the effects of tax reforms on compliance among small and medium enterprises operating in Bomet Town.

Statement of the Problem:

Tax play a major role in the growth of any economy and an increase in tax compliance brings about growth of an economy. Tax reforms improve tax compliance thus improving government ability to mobilize domestic revenues and resources for investment purposes (Karingi, 2005). The question as to why some people pay tax while others do not has raised a lot of concern among economists, governments and tax administrators alike, and would tax reforms enhance tax compliance? There is strongly evidence that suggest that it is far easier to tax the formal sector than the informal, which, by one core definition, is *de facto* outside the tax system (ILO 2000).

Thus, there is need to adopt an ideal tax policy so as to ensure voluntary tax compliance. Small and medium enterprises have given the government challenge because they cannot comply with tax. This is because the measures put in place to govern collection of revenue have failed. In the end the government has ended up in raising less revenue due to evasion.

TOT was introduced in Kenya in 2008 so as bring SMEs sector into the tax net. KRA has undertaken a number of reforms to improve tax compliance among SMEs. Some of the reforms include strengthening administrative capacity of the tax system, taxpayers' e-registration and e-filing, introduction of stifle tax penalties and enhance taxpayer education and taxpayer services (Mwangi, Gachoka&Siagi, 2010).

Previous studies on tax compliance found that tax reforms indeed enhance tax compliance. This include Karingi et al (2005) on simplified administration, Palil (2010) on taxpayer education, Mookherjee (1997) on good computerization and Fishlow & Friedman, 1994 on increased incentives and penalties. However, these studies were general in methodology where they looked at tax compliance in terms of aggregates, not specific to each enterprise.

This methodological gap was addressed through assessing tax compliance for each enterprise. Introduction of TOT is an affirmative action which was aimed at bringing the SME sector into the tax bracket. However, the performance of TOT has not been satisfactory and revenue has been below average in many months since its inception.

Main challenges facing SMES in the county is failure to comply, lack of awareness on taxations , language barrier of the SMES, too much complications in filling in the tax forms, lots of formalities are required during registrations and so many others reasons. According to Dan (2010) Most of SMEs have remained informal due to high cost of compliance with tax system .This suggests that tax reforms targeted to small and medium enterprises may not have had a positive impact on their compliance.

This is the problem that this study was seeking to address. In the county of Bomet revenue collection has not been to the standard since sources of collecting revenue are minimal. One of the main source being SMES. SMES in the town could be highly revenue yielding sector but it is to the contrary since majority of SMES are not registered and they cannot be brought to the tax net. The county has not met the expectation of the residents because of minimal resources which resulted from low revenue collection. This was the main reason for conducting this study. The SMES in the county have never been brought to a tax bracket, trying to determine whether online filing, stringent tax penalties, taxpayer education and simple tax regime promote compliance.

Despite reforms that have been undertaken to improve compliance with tax (TOT), by SMEs in the county, lots remains to be done in order to achieve the desired results anticipated when TOT was introduced. County revenue report of 2014 shows that only 859 SMEs were registered and report of 2015 from the same department shows that only 930 SMEs had registered with TOT. This research therefore was seeking to address the effects of tax reforms on compliance by SME's operating in the County of Bomet.

2. LITERATURE REVIEW

Deterrence Theory:

Deterrence theory by Trivedi and Shehata (2005) argued that taxpayers are a moral utility maximizes. Tax payers are guided by economic motives for example profit maximization and probability of being detected. According to deterrence theory, there is a need to increase audits and impose penalties for non-compliance to enhance taxpayers' compliance (Trivedi and Shehata, 2005).

Deterrence theory stems from the classical taxation theory advanced by Adam Smith. Adam Smith defined a taxation system and indicated four main taxation principles namely determination, equity, convenience and thrift of taxation administration. These principles are the main conditions for tax formation. Later taxation work has been advanced by Ricardo, Mills, and Petty (MBA Knowledge Base, 2010).

Theory of Optimal Taxation:

Optimal Taxation Theory by Mankiw, et al.,(2009) urges that best tax system adopted should maximize the social welfare function subject to a given set limits. The theory also posits that the government's objective is to increase revenue collection while minimizing the cost associated with the tax system. Taxation studies which are based on optimal taxation treats tax payers as a utilitarian; i.e., taxpayer welfare function comprises of the individuals utilities in the society. The studies used a social welfare function that is a nonlinear function of individual utilities (Mankiw, Weinzierl & Yagan, 2009).

Psychological Theory:

Psychology theory by Mocetti (2004) urges that the tax obligations are complied with due to the influence of psychological factors. The theory considers taxpayers' ethics and morals as key among other factors. Psychology theory emphasizes on changing taxpayers' attitudes towards tax systems to improve on tax compliance while the economic theories lay emphasize on increasing audits and imposing penalties to deter non-compliance.

The theory indicates that taxpayers comply even when the likelihood of detection is minimal. Tax morale is termed as the individual factor that motivates a person to comply with tax obligations. As a determinant of tax behavior, tax morals aim to explain how and why a tax payer morality influences his or her tax behavior. Tax evasion can be attributed to the tax morale (Mocetti, 2004). Tax payers would be inclined to evade tax when the communities in which they live or operate disapprove of tax evasion.

Tax payers are most likely to conform to tax obligation requirements if their friends, relatives and acquaintances comply with these obligations. Also tax payers will evade taxes if they feel that other people are getting away with tax evasion. In other words, if a society tolerates tax evasion, such a society would encourage tax evasion.

Cummings (2007) supports the theory in this study where he said taxpayers can feel morally justified in evading taxes if they feel that the quality of public goods and services are unsatisfactory. In most economies, tax evasion rate is low when the provision of public goods and services is satisfactory. Taxpayers will end up complying with their tax obligations if they feel that their government is honest, democratic and participatory and also if the taxpayers feel they play a meaningful role in governance.

The Allingham and Sandmo Theory:

Allingham and Sandmo (1972) tax compliance theory known as Allingham and Sandmo theory argues that the government deters tax evasion through a sanction arrangement and audits. Taxpayer will decide to violate the fiscal laws and evade his or her tax obligations when he or she perceives that the cost of evading tax is too low, believing that he or she is unlikely to be detected or audited. Taxpayers would also evade tax when he or she perceives the cost of compliance is high. Tax systems and procedures that are involving and cumbersome tend to encourage tax evasion. Taxpayers who feel that tax rate is high and punitive will evade tax.

There is a negative correlation between evasion of tax, the likelihood of detection, the magnitude of punishment and high transactional costs associated with tax laws. Tax evasion in which a rational and a moral tax payers have to maximize his or her expected utility mostly depends on the level of income.

Conceptual Framework:

Independent Variables   Dependent variable
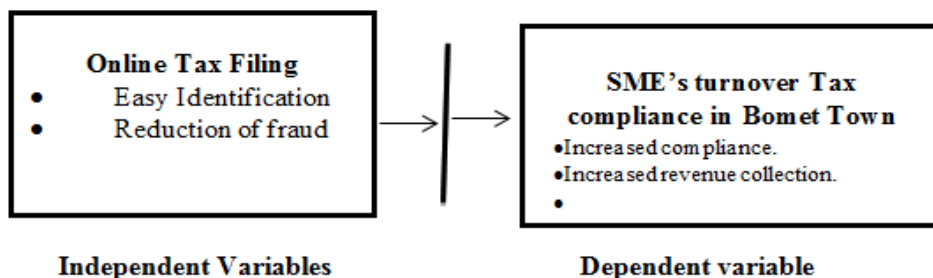
Research Gaps:

However, there exists little empirical literature on how measures undertaken contribute to compliances among SMEs. This is the knowledge gap this study aimed to fill. There is extensive literature exploring tax reforms and how the reforms

influence compliance among taxpayers. However, despite establishing turnover tax regimes for SMEs its performance has been inadequate because of asymmetrical tax enforcement strategies which breed involuntary compliance (International Tax Dialogue, 2007). This is the knowledge gap this study was aiming to fill. Although tax payer education may be administered to create awareness, changing attitude of tax payers for tax education depends on honesty, acceptance and readiness of taxpayers. This is the knowledge gap this study aimed to fill.

Target Population:

The study population is the full set of cases from which a sample is taken (Mugenda & Mugenda, 2003). An element is the subject on which the measurement is being taken and is the unit of the study as this study targeted SMEs operating their business in Bomet Town. The Study adopted descriptive sampling. The total population was all SMEs registered with Bomet county revenue department as at 17th march 2017. This study targeted 350 SMEs in Bomet town.

3. FINDINGS AND DISCUSSION

Response Rate:

The sample size of the study was 183 and the response rate was 180 giving a percentage of 98.4%. This response rate was good enough and representative and conforms to Mugenda and Mugenda (2003) where it states that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good enough, and a response rate of 70% and over is excellent. This response rate was recorded high because of close contact with the respondents making the exercise easy for follow up during the data collection exercise. The exercise was also done through drop and pick method making it convenient in case of clarification.

Demographic Information:

This section sought to identify the name of the businesses, how long the business had been operational, the annual turnover for the business and whether the businesses had KRA PINs. The results were presented as follows.

Duration of Operating the Business:

To determine the duration of the SMEs owners in their businesses, the researcher requested the respondents to indicate for how long they had been working/operated the businesses. The response was presented in figure below
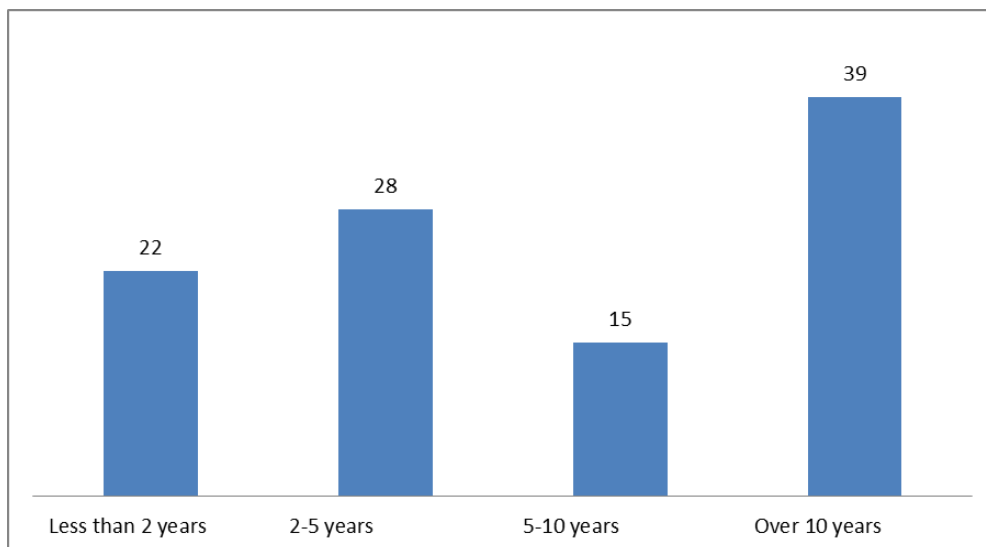
Figure 1: Duration of Operating the Business

As per Figure above above, 22% percent of the respondents to this study had been in their businesses for less than two years, 28% had been running their businesses for 2-5 years, 15% had been operating their businesses for 5-10 years, 29% had been in their businesses for over 10 years. The findings indicated that most respondents had worked in their SMEs for considerably long period thus had the relevant knowledge and experience on the undertakings within the entrepreneurial industry especially how the tax reforms had affected their level of tax compliance.

Online Tax Filling:

Complexity of the Process of Filling Tax Returns:

The study also sought information on how complex the respondents from the SMEs in Bomet County felt. Their response was presented in table below.

Table:1 Online Tax Filling

Level of Complexity	Mean	St Deviation
Very, highly complex	0.345	0.9867
Very complex	0.123	0.3425
Appropriate	4.345	0.3672
Less complex	3.456	0.3718
Least complex	3.124	0.4935

The results show that most of the respondents were comfortable with the process of filling the tax online at a mean rating of 4.345 for those who said that it was appropriate. They were followed by those who felt that the process was less complex at a mean score of 3.456 saying the only complex thing about the process of filling the returns was that one had to be computer literate or know how to use a smart phone. Again one had to invest in having a smart phone and a computer or be ready to pay for internet charges at the cyber café after making the returns. Then another group observed that it was least complex at a mean response of 3.124, those who felt that it was very complex were rated at a mean score of 0.123 and another group who observed that the process was very highly complex were rated at a mean score of 0.345.

Filling Tax Returns on Time:

Then the study sought to establish when the SMEs filed their tax returns. The response was presented in figure below
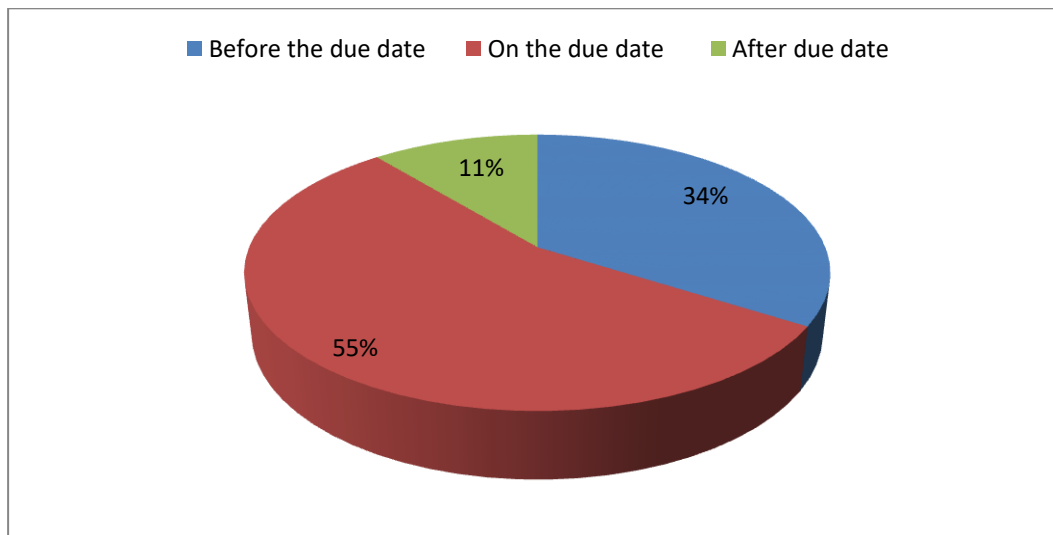
Figure 2 Filling Tax Returns on Time

The study found that most of the respondents liked the last minute rash of filling their returns on the due date at 55%. Then another 34% were proactive and therefore did not like the last minute rash and the down time of the net so they made their returns a few days before the due date at 34% with the least being those who had to incur penalties for filing their returns late at 11% after the due date.

For the SMEs that filed their returns late after the due date they had to incur penalties ranging from 10,000 for failing to file VAT every month and almost up to 50,000 for failing to file company tax at the end of every financial year. The study also found that all the SMEs and their employees had been adequately trained by KRA staff on how to file tax returns and also understood well the dangers of failure to make returns at the maturity date.

Page | 527

4. SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Summary of the Findings:

On the demographic distribution of the respondents, the study found that most of the respondents had an experience of less than two years in the SMEs, a good number had an experience of between 2-4 years, another had experience of between 4-6 years, with the least being those who had experience of between 6-10 years and over ten years in running the SMEs in Bomet Town. The findings indicated that most respondents had worked with those SMEs for considerably long period thus had the relevant knowledge and experience on the undertakings within the entrepreneurial industry and the tax reforms including how this had affected their level of compliance with tax returns.

Online Filing:

The study found that most of the SMEs had an annual turnover of Kshs 500,000 to 2000,000. They were followed by those which had an annual turnover of over Kshs 5000,000. Then the SMEs whose turnover was between Kshs 2000,000 – 5000,000 followed with the least being the SMEs with a turnover of less than Kshs 500,000. This implies that most of the SMEs in Bomet Town are very strong / stable financially and hence wreck in very good profits at the end of every year with a turnover of over 2000,000.

The study also found that all the SMEs had PINs since it was a requirement at the time of registering the business and also when opening bank accounts. At the same time the study established that all the SMEs pay taxes every month and annually. These taxes are VAT and company tax returns which they do online in their work places or at the cyber cafes within the town. Due to the fact the tax returns are filled online, it has become very easy for the SMEs to file the returns which has enhanced their level of compliance with tax returns from a general point.

On the appropriateness of filing tax online, the study found that most of the respondents were comfortable with it because they said that it was appropriate. They were followed by those who felt that the process was less complex saying the only complex thing about the process of filling the returns was that one had to be computer literate or know how to use a smart phone. Again one had to invest in having a smart phone and a computer or be ready to pay for internet charges at the cyber café after making the returns. Then another group observed that it was least complex.

However there was poor compliance with the dates of filing the taxes as most of the respondents liked the last minute rash of filing their returns on the due date. Only a few were a bit proactive and therefore did not like the last minute rash and also anticipated down time of the net so they made their returns a few days before the due date. At the same time there were those who would not escape the tax penalties as they filed their returns after the due dates at 11% after the due date.

For the SMEs that filed their returns late after the due date they had to incur penalties ranging from Kshs. 10,000 for failing to file VAT every month and almost up to Kshs. 50,000 for failing to file company tax at the end of every financial year. The study also found that all the SMEs and their employees had been adequately trained by KRA staff on how to file tax returns and also understood well the dangers/penalties of failure to make returns on or before the maturity date.

Conclusions:

The study concluded that the SMEs in Bomet Town are very stable and strong financially as they their gross operations amounted to Kshs 500,000 to 2000,000 with other going up to 5000,000 annually. At the same time all the SMEs have KRA PINs because they are all registered businesses by the register of companies, KRA and the Banks. All the SMEs pay taxes every month and annually. These taxes are VAT and company tax returns which they do online in their work places or at the cyber cafes with the town. Due to the fact the tax returns are filed online, it has become very easy for the SMEs to file the returns which has enhanced their level of compliance with tax returns from a general point.

On the appropriateness of filing tax online, the SMEs are very comfortable with the process of filing the returns. For those who felt that the process was less complex they said that the only complex thing about the process of filling the returns was that one had to be computer literate or know how to use a smart phone and invest in having a smart phone and a computer or be ready to pay for internet charges at the cyber café after making the returns.

However there was poor compliance with the dates of filing the taxes as most of the SMEs filed their returns on the due. For the SMEs that filed their returns late after the due date they had to incur penalties ranging from Kshs. 10,000 for failing to file VAT every month and almost up to Kshs. 50,000 for failing to file company tax at the end of every financial

year. All the SMEs and their employees have been adequately trained by KRA staff on how to file tax returns and clearly understand well the dangers/penalties of failure to make returns on or before the maturity date.

Recommendations:

Based on the findings the researcher makes the following recommendations;

On online tax filing returns, the KRA team should work closes with the SMEs to avoid cases of default due to down time of the net or failure of the systems. Further KRA should remove the many logging procedures for the customers expect the password to make the process simple.

Recommendations for Further Studies:

The study finally makes recommendations for further studies on the following areas;

1. The extent of tax default rate among SMEs in Bomet County

2. The extent of the KRA in claiming tax defaults in Bomet County

REFERENCES

[1] Agyei, M. (2008), Tax Morale and Tax Evasion in Latin America, *Andrew Young School of Policy Studies.* Macroeconomic and Sectoral Choices. Nairobi: *Institute of Policy Analysis and Research (IPAR).*

[2] Allingham, G. & Sandmo, M. (1972). Income tax Evasion; A theoretical analysis. *Journal of Public Economics, 72,323-338.*

[3] Alm, D., Chan, C., Troutman, S., & O'Bryan, D. (2007). An expanded model of taxpayer compliance: empirical evidence from the United States and Hong Kong. *Journal of International Accounting, Auditing & Taxation*, 9(2) 8 - 12

[4] Atawodi, W., & Ojeka, S. (2012) Factors That Affect Tax Compliance among Small and Medium Enterprises (SMEs) in North Central Nigeria. *International Journal of Business and Management, 7*(12), 87-96.

[5] Bjork, B. (2003). *Effectiveness and Economic Impact of Tax Incentives in the SADC Region.* Arlington, Virginia: Nathan Associates Inc.

[6] Brautigam, F. Deborah, B., Odd-Helge, S., Fjeldstad, M. & Mick, M. (2008), Taxation and state-building in developing countries. Capacity and consent, Cambridge University Press.

[7] Carroll, E. (2011). *Policy Analyst Taxing Ghana's Informal Sector:* The Experience of Women Christian Aid Occasional. Paper No 7.

[8] Chandran, C. (2004). Research Methods with Illustrations from Christian Ministries, Starbright Services Ltd.

[9] Cheeseman, N. & Griffiths, R. (2005). Increasing Tax Revenue in Sub-Saharan Africa: The Case of Kenya. *Oxford Council on Good Governance, Economy Analysis*, 6.

[10] Chipeta, C. (2002). The Second Economy and Tax Yield in Malawi. *Research Paper No 113* .

[11] Christian, P. & Jaramillo, F. (2004). *Threats to Small and Medium sized Enterprises from Tax and other Regulations*. Paper presented at the Australian Taxation Studies Program Small Business Tax Symposium, Developing Good Tax Policies for SMEs, Sydney.

[12] Cobham, A. (2005). Tax Evasion, Tax Avoidance and Development Finance. *The Oxford Council on Good Governance,* 6(4), 8.

[13] Cooper, R. (2003). *Business Research Methods*. McGraw-Hill School Education Group.

[14] Cummings, R. (2007). Effects of Tax Morale on Tax Compliance. Experimental and Survey Evidence, *International Journal of Business and Management,* 9(2) 8 -12

[15] Cummings, R., Martinez-Vazquez, J., McKee M., &Torgler, B. (2009). Tax Morale Affects Tax Compliance: Evidence from Surveys and an Artefactual Field Experiment. *Journal of Economic Behavior & Organization,* 70, 447–457.

[16] Dan, O. (2010). Relationship between Income Size, Inspection and VAT Compliance: Evidence from Private Firms in Kenya. *African Research Review*. 3(4) 29 -57.

[17] Everest-Phillips, M. (2008). The Impact of Outcome Orientation and Justice Concerns on Tax Compliance: The Role of Taxpayers' Identity. *Journal of Applied Psychology,* (87). 629– 45.

[18] Fagbemi, O., Uadile, M., & Noah, A. (2010). The Ethics of Tax Evasion: Perpetual Evidence from Nigeria. *European Journal of Social Sciences, 17*(3), 360-371.

[19] Feld, L. & Frey, T (2007). Tax Evasion and Voting: An Experimental Analysis, *Kyklos Journal,* 197-222.

[20] Fishlow, E. &Friedman, P. (1994), Business Tax as State-Building in Developing Countries: Applying Governance Principles in Private Sector Development, *International Journal of Regulation and Governance* 8(2), 123–154.

[21] Gabay, B., Remotin, M., &Uy, E. (2007). *Economics: its concepts and principles.* Retrieved from http://www. slideshare.net/gar_dev/concepts-of-taxation

[22] Mankiw, G., Matthew, W. & Danny, Y. (2009) Optimal Taxation in Theory. *International Journal of Finance 7*(2), 13–14.

[23] Holban, O. (2007). *The Taxation Of Small And Medium-Sized Enterprises-A Hindering Factor Influencing The European Economic Growth*. Doctoral Dissertation, AlexandruIoan Cuza University of Iasi and Academy of Economies Studies from Bucharest Romania.

[24] IMF (1998) *Tax Administrations and Small and Medium Enterprises (SMEs) in Developing Countries*. IMF Washington DC

[25] International Tax Dialogue. (2007). *Taxation of Small and Medium Enterprises.* Background Paper for the International Tax Dialogue Conference, Bueons Aires.

[26] Kasipillai, C. (2005). Counteracting Tax Evasion in Malawi: an Analysis of the Methods and a Quest for Improvement. *MPRA- Munich Personal RePEc Archive)*

[27] Kasipillai, C. & Abdul-Jabbar, H. (2006) Counteracting Tax Evasion in Malawi: an Analysis of the Methods and a Quest for Improvement *MPRA (Munich Personal Repec Archive)*

[28] Karingi, S., Wanjala, B., Pamba, E., &Nyakang'o, E. (2005). Tax Reform Experience in Kenya. *Working Paper 13, KIPPRA, Nairobi.*

[29] Kothari, C. (2004). *Research Methodology; Methods and Techniques.* New Delhi, India: New Age International (P) Ltd.

[30] KIPPRA (2013) Tax Compliance Study. Tax Policy Unit, Macroeconomics Division, *Kenya Institute of Public Policy Research and Analysis,* Nairobi.

[31] KRA (2011). *Revenue Administration Reforms In Kenya: Experience And Lessons. Nairobi,* Kenya Revenue Authority. Kenya

[32] KRA (2013). *Tax Compliance Study. Tax Policy Unit*, Macroeconomics Division, Kenya Institute of Public Policy Research and Analysis, Nairobi.

[33] KRA (2015) *Annual Tax Report*. Nairobi: Government Press.

[34] Marti, L. O. (2010). Taxpayers' Attitudes and Tax Compliance Behavior in Kenya. *African Journal of Business & Management, 1,*112-122.

[35] Mankiw, N., Weinzierl, M., &Yagan, D. (2009). Optimal Taxation in Theory and Practice. *Journal of Economic Perspectives*, *American Economic Association*, 23(4), 147-174.

[36] Masato, R. (2009). the Cost Of Tax Abuse; a Paper on the Cost of Tax Evasion. *Tax Justice Network 5 (2)*

[37] Masinde, M. (2010). *Unlocking the Revenue: Study on Taxing the Small and Medium Enterprises in Kenya*, Unpublished Research Proposal, Kenyatta University.

[38] MBA Knowledge Base. (2010). Theories of Taxation. *Journal of Business taxation*. 5(6) 3 -12

[39] McCluskey, W. (2012) Land Value Taxation: An Applied Analysis. *www.books.google.com*

[40] Mo, K. (2003). Corporate Diversification. *Journal of Economic Perspectives,* 8(3) 163-178.

[41] Mocetti, G. (2004). Tax Morale and Public Spending Inefficiency. *International Tax and Public Finance.*

[42] Mookherjee, M. (1997), Economic Impact of Trade Facilitation: The link between Trade Facilitation and Trade flows, Government Revenue and Foreign Direct Investment. *International Journal of Finance,* 8(4), 23–31.

[43] Mugenda, M. & Mugenda, G., (2003). Research Methods: Quantitative and Qualitative Approaches. Laba graphics services.

[44] Muriithi, M., and Moyi D., (2003), Tax Reforms and Revenue Mobilization in Kenya, *Research Paper No 131, African Economic Research Consortium (AERC)*, Nairobi, Kenya.

[45] Mwangi, D., Gachoka, S. & Siagi, P. (2010). Tax Reform Experience in Kenya. *Working Paper 13, KIPPRA, Nairobi*.

[46] Osambo, A. (2009). *Effects of Taxation on SMEs*. Unpublished Master's Thesis, School of Economics, Kenyatta University.

[47] Palil, M, (2012), *Tax Knowledge and Tax Compliance Determinants in Self-Assessment System in Malaysia.* Birmingham, PhD Thesis University of Birmingham.

[48] Pope, J. & Abdul-Jabbar, H. (2008). *Tax Compliance Costs of Small and Medium Enterprises in Malaysia*: Policy Implications.

[49] Trivedi, M. & Shehata, S. (2005) Attitudes, Incentives and Tax compliance. *Journal of Public Economics,* Vol 10, 29-61.

[50] Wagacha, M (2009) *Fiscal Policies and their Macroeconomic Implications for Kenya*. In P. Kimuyu, M. Wagacha& O. Abagi, eds., Kenya's Strategic Policies for the 21st Century:

[51] World Bank (2008). Informal sector and Taxation in Kenya: The Budget Focus Issue No. 29 September 2008

[52] World Bank (2013) World Development Report. 19. Washington, D.C.: The World Bank