FACTORS INFLUENCING THE ADOPTION OF THE iTAX ONLINE SYSTEM AMONG SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs) IN WESTLANDS, NAIROBI COUNTY

BY

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UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

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BY

ALICE W. MURIGU (644370)

A Research Project Submitted to the Chandaria School of Business in Partial Fulfilment of the Requirement for the Degree of Masters in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

SPRING 2017
STUDENT’S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, ownership institution or university other than the United States International University-Africa in Nairobi for academic credit.

Signed: __________________________ Date: __________________________

Alice Wanjiru Murigu (ID 644370)

This project has been presented for examination with my approval as the appointed supervisor.

Signed: __________________________ Date: __________________________

SammyLio

Signed: __________________________ Date: __________________________

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ABSTRACT

Major revenue administration reforms have been spearheaded by revenue authorities around the world in a bid to strengthen revenue administration, especially for Small and Medium-sized Enterprises (SMEs). SMEs pose challenges for tax administration due to their large numbers and the informal nature of their businesses. Consequently, the opportunities for tax evasion are high. A key feature of revenue administration reforms is the increasing use of information and communications technologies by the revenue authorities.

The general objective of this study was to establish the factors influencing the adoption of the iTax online system among SMEs in Westlands, Nairobi County. The study was guided by three specific objectives: (i) to determine the influence of SMEs’ perceptions towards the iTax online system, (ii) to establish how SMEs’ access to internet influences their adoption of the iTax online system, and (iii) to determine how the SMEs’ technical skills and knowledge of use of the iTax system influences their adoption of the iTax online system.

The study was designed as a descriptive study. The population was 120 SMEs located in Westlands from which a sample size of 73 SMEs was selected. Out of this sample, 62 respondents completed the questionnaires, translating to an 85% response rate. The Statistical Package for Social Sciences (SPSS) version 20 was used to analyse the feedback and generate descriptive statistics used to make inferences on the population.

From the study’s findings, the SMEs felt the iTax online system was useful. They believed that the introduction of iTax was a beneficial idea. The study also found that the SMEs felt the usage of the online system would not infringe on their privacy. Additionally, that the online system would ease the process filing of tax returns.

The study also found that majority of the SMEs accessed internet at their business premises and found the monthly cost of internet to be affordable. However, the computer hardware acquisition and maintenance costs were found to be relatively high. Moreover, it was difficult to obtain finances to equip the business with the necessary Information Technology (IT) infrastructure.
With regard to the technical skills and knowledge of use of the iTax online system, the study found that the SMEs had good IT literacy levels and a commendable level of tax knowledge to be able to adopt the system. The SMEs were however challenged with regard to understanding the frequent tax law changes.

The study concludes that the SMEs perceive the iTax online system to be useful, credible and easy to use, positively influencing its adoption. Another conclusion was that significant gains had been made in Kenya’s broadband market to enhance internet penetration and make internet affordable. However, the SMEs are faced with the challenge of high IT infrastructure set up costs and difficulties in accessing finance to cover these costs. Consequently, this negatively influences the adoption of the iTax online system. The study also concludes that the commendable IT literacy skills and tax knowledge that SMEs have, positively influences adoption of iTax.

The study recommends that the Kenya Revenue Authority (KRA) conducts continuous training and sensitization of the iTax online system. There is also the need for policy interventions by the government and other financial stakeholders to facilitate financing for the SMEs who need to equip their businesses with the necessary IT infrastructure.
ACKNOWLEDGEMENT

I would like to acknowledge The Almighty God for the strength, health and wisdom granted to me throughout the writing process. I would like to thank my supervisor Sammy Lio for his guidance and support which was instrumental in writing this project. I also wish to appreciate my family and friends for the moral support and encouragement throughout the entire period of writing the research paper.
DEDICATION

I dedicate this paper to my dear husband Philip Katumo for always supporting, motivating and encouraging me and showing great patience during the entire period of my study.
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<th>Description</th>
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<tr>
<td>ERP</td>
<td>Enterprise Resource Planning</td>
</tr>
<tr>
<td>EU</td>
<td>European Commission</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
</tr>
<tr>
<td>IRS</td>
<td>Internal Revenue Service</td>
</tr>
<tr>
<td>ITA</td>
<td>Income Tax Act</td>
</tr>
<tr>
<td>ITAS</td>
<td>Integrated Tax Administration System</td>
</tr>
<tr>
<td>ITMS</td>
<td>Integrated Tax Management System</td>
</tr>
<tr>
<td>KRA</td>
<td>Kenya Revenue Authority</td>
</tr>
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<td>KREISA</td>
<td>Kenya Revenue Authority Enterprise Integrated System Architecture</td>
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<tr>
<td>MSME</td>
<td>Micro, Small and Medium Sized Enterprises</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PAYE</td>
<td>Pay As You Earn</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small And Medium-sized Enterprises</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
</tr>
<tr>
<td>TAM</td>
<td>Technology Acceptance Model</td>
</tr>
<tr>
<td>TPA</td>
<td>Tax Procedures Act</td>
</tr>
<tr>
<td>URA</td>
<td>Uganda Revenue Authority</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem

Sreekantaradhya (2000) notes that taxation plays a vital role in the process of development of any country. It enables resource mobilisation, allocation, distribution and stabilisation. Revenue Authorities across the world are mandated to assess, collect and enforce laws relating to a country’s tax revenues. “Governments around the world are increasing the use of information and communications technologies to improve the delivery of public services and the dissemination of public administration information to the public” (Azmi & Kamarulzaman, 2010, p. 599). A common feature of these reforms is the use of automated systems in collecting, accounting and facilitating tax payments. This facilitates timely access to information from reliable databases, it also unifies procedures and standardizes the payments processes. The main objective of the reforms is to strengthen revenue administration (KRA, 2010).

One of the earliest adopters of online filing was the United States of America (USA), through its Internal Revenue Service (IRS). The IRS, in recognition of the need to effectively and efficiently collect taxes with minimum disruption to taxpayers employed the use of modernized Information Technology infrastructure (IRS, 2007). According to eFile LLC (2016), online filing of tax returns in the USA began as early as 1986. Initially, efilng in the USA began as a small test program with only 25,000 tax returns being filed electronically. The system also allowed a tax refund to be wired directly to the taxpayers bank account. It was seen to greatly reduce the chances of making an error while filing the tax return. The test program’s success led to its rollout to other cities initially not covered. Four years later 4.2 million tax returns were filed in the year 1990. As at 2013, the method had become widely popular with a record of 1 billion tax returns having been filed throughout its history.

The transition from manual to online tax systems in countries such as Singapore began in early 1990s. In other countries such as Mexico, its revenue authority began implementing online filing systems in 1998. As at 2004, the online system supported online tax payments and other tax transactions (Bhatnagar, 2004).
In Africa, Nigeria for instance modernised its tax administration services in the period between 2004 and 2013. The online system was known as Integrated Tax Administration System (ITAS). The system was launched in 2013, its main aim was to use technology to enhance tax compliance with automation of all core processes of tax administration (PwC, 2015).

The East Africa region was not left behind; Uganda and Tanzania were early reformers of their revenue administration systems in the Eastern Africa Region (KRA, 2010). Muwonge (2011) notes that in Uganda, the Uganda Revenue Authority (URA) in 2005 developed an online tax system dubbed ‘e-Tax’. Muwonge (2011) further comments that the purpose of the online tax system was to enable efficiency in the tax administration process as well as reduce the taxpayer’s expenses in tax compliance. In Tanzania on the other hand, electronic filing of VAT returns was introduced in October 2012 significantly reducing the time taken to file the tax returns. Additionally, in 2013 the Tanzania Revenue Authority (TRA) launched a Revenue Gateway System, an interface between the TRA and commercial banks enabling seamless payments of taxes.

The KRA identified the use of technology as a major factor of success in revenue administration reforms and overall improvement of their service delivery (KRA, 2010). Other benefits expected to be realised were reduced lead times, costs savings and reduced interaction between KRA employees and taxpayers. This would guarantee the transparency and credibility of the tax transactions and thus lower corruption between the KRA employees and taxpayers (KRA, 2010). In response to this, they launched a technology platform known as the Integrated Tax Management System (ITMS) in 2003. In October 2013, they introduced the iTax online system. The iTax online system was an improved version of the ITMS allowing additional tax processes and payments in addition to filing of tax returns. As at 2015 over 2 million taxpayers were registered on the iTax online system (KRA, 2015).

SMEs are non-subsidiary, independent firms which employ less than a given number of employees. SMEs bring dynamism and innovation and are responsible for creation of employment opportunities in emerging and developing economies. They account for a large percentage (95% to 99%) of the businesses in all countries (OECD, 2009). The World Bank (2015) places the contribution of SMEs towards total employment at 45
percent and 33 percent contribution to the Gross Domestic Product (GDP) in emerging countries. In Kenya, SMEs are estimated to account for over 25% of the GDP and account for 77% of the employment statistics (Institute of Economic Affairs, 2012). The Budget Focus Report by the Institute of Economic Affairs (2012) further noted that as at 2005 the potential tax accruable from the SMEs stood at 4% of the GDP.

The OECD (2007) noted that annual turnover, number of employees and net assets were the categories used to define SMEs. In Kenya, the MSME bill has defined SMEs in general, using the number of employees and company’s annual turnover criteria. The SME definition however for manufacturing companies has two additional criteria; i) investment in plant and machinery and ii) registered capital. The table below illustrates the definition further (Kushnir, Mirmulstein, & Rarmalho, 2010).

Table 1.1 MSME bill definition of SMEs

<table>
<thead>
<tr>
<th>ENTITY (Trade, service, industry or business activity)</th>
<th>No. of Employees/People</th>
<th>Annual Turnover Limit</th>
<th>Investment in Plant and Machinery + Registered Capital</th>
<th>Equipment Investment + Registered Capital</th>
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<tr>
<td>Micro enterprise</td>
<td>Less than 10 people</td>
<td>Not exceeding KShs. 500,000</td>
<td>Not exceeding KShs. 10M</td>
<td>Not exceeding KShs. 5M</td>
</tr>
<tr>
<td>Small enterprise</td>
<td>More than 10 but less than 50</td>
<td>Between KShs. 500,000 to KShs. 5M</td>
<td>More than 10M but less than 50M</td>
<td>More than 5M but less than 20M</td>
</tr>
<tr>
<td>Medium Enterprise</td>
<td>More than 50 but less than 100</td>
<td>Between KShs. 5M to 800M</td>
<td>Not specified in the draft bill</td>
<td>Not specified in the draft bill</td>
</tr>
<tr>
<td>Micro, Small and Medium (MSME)</td>
<td>Not less than 100</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
The Kenya Revenue Authority was established by the KRA Act, Chapter 469 of the Laws of Kenya. The KRA’s main mandate is to act as the revenue collection agency of the government (KRA, 2015). In carrying out its mandate, the KRA administers and enforces various written laws relating to revenue which include the Income Tax Act (ITA), Value Added Tax (VAT) Act, Customs and Excise Act, Traffic Act, Transport Licensing Act, Sugar Act, Stamp Duty Act, Second-Hand Motor Vehicles Purchase Tax Act among others. The Authority also acts as an advisor of the Government in revenue administration matters (The Republic of Kenya, 2015).

Section 3 (1) of the ITA provides that income tax shall be charged upon the income of a person which accrued in or was derived from Kenya(Income Tax Act Chapter 470, 2012). Income taxes in Kenya include corporation tax, Pay As You Earn (PAYE), capital gains tax, rental income tax, advance tax on commercial vehicles, fringe benefit tax, withholding tax and turnover tax. Companies pay corporation tax on the gains and profits from their businesses. Sole proprietors and partnerships pay PAYE on the gains and profits from their businesses, calculated based on the individual graduated scale rates. Furthermore, businesses are required to pay VAT, customs and excise duties charged under the VAT Act, Customs Act and Excise Duty Act respectively.

The iTax online system is used to facilitate payment of all income taxes, VAT and excise duty. Additionally, monthly and annual self-assessment returns for these taxes are filed on the iTax online system. Once the payment is made and tax returns filed, the company’s iTax ledger is updated automatically to reflect the company’s tax position. The iTax online system also allows for online Personal Identification Number (PIN) registration, amendment of PIN details, applications for waiver of penalties and interest, assessment dispute resolution, application for tax compliance certificates and applications for tax refunds. The system also facilitates e-communication with the KRA.

In the Sixth Corporate Plan, the KRA recognized that its goal was to enable the government of Kenya achieve revenue independence by the year 2018 which would effectively eliminate its reliance on financing its budget deficit through loans. In this Plan, the importance of using technology to enhance tax compliance was emphasized. This was seen as a way to deal with tax evasion and fraud (KRA, 2015).
Tax evasion is the deliberate failure to pay taxes as provided in the tax laws. According to Sandmo (2005) tax evasion is a practice that violates the tax laws. He emphasized that when taxpayers refrain from reporting correct profits, they engage in illegal activities that are subject to legal action from the tax authorities. Tax evaders will always want to hide from the tax authorities. A report by the Institute of Economic Affairs (2012) noted that tax evasion is common in the SME sector, largely driven by the perception that taxes create a heavy burden on them.

Tax evasion is different from tax avoidance in that, tax avoidance is done within the confines of the tax laws (Sandmo, 2005). When there is ambiguity in the tax laws, this in some cases provides a tax saving opportunity for a business. A business can also evaluate their business model, transactions and financial profile to align themselves in such a way that they benefit from paying lower taxes (Mgammal & Ismail, 2015).

Hira (2016) notes that the most positive aspect of the year 2015 was the introduction of the iTax online system. Hira asserts that though the iTax system has been experiencing teething problems, he believes it was a good move as it would revolutionize how tax affairs would be conducted. The iTax online system was initially introduced in phases. After successful piloting, it was made a mandatory requirement for filing of tax returns online from 1 August 2015 (KRA, 2015). In essence, this meant that all taxpayers including SMEs, were required to use iTax only and abandon the manual process.

1.2 Statement of the Problem

A study done by OECD (2009) on taxation of SMEs in twenty OECD countries established that tax compliance costs are a burden to the SMEs. This is because the SMEs’ turnover is low which translates to low profits. As a result, the cashflows may not be sufficient to meet these tax compliance costs. Tax compliance costs are fixed costs which in essence means they will always form part of the total expenses incurred. This imposes a relatively higher burden on SMEs considering their small size (lower turnover, fewer assets and few employees) as compared to larger firms. Furthermore, the study by OECD (2009) noted that tax compliance costs include bookkeeping costs and costs of hiring an employee capable of calculating taxes due monthly, quarterly and annually and is able to file tax returns. Additionally, the cost of acquiring the computer hardware, internet set up cost and monthly internet costs are an additional cost. Moreover, payment of the taxes is
a significant cost. The costs of complying with the various tax laws and regulations, has a
direct effect of lowering the SMEs’ profit margins (OECD, 2015).

Small companies pose challenges for tax administration by the revenue authorities
worldwide, due to their large numbers which translates into huge tax administration costs.
Additionally, the nature of the SMEs’ transactions also poses a challenge as the SMEs
tend to operate in the informal market and domestic market as opposed to the export
market, hence making it harder to supervise their tax compliance (OECD, 2009). The
KRA does acknowledge the challenges of tax compliance of the SME sector. According
to Mungai (2015), the Office of the Commissioner General admits that many SMEs do
not register voluntarily, and those who get to register often fail to keep records, file tax
returns and settle tax liabilities promptly. In KRA’s Fifth Corporate Plan, the revenue
authority demonstrated its renewed focus on SME tax compliance. The corporate plan
denoted the SME sector as a sector with a low tax compliance (KRA, 2013). Additionally,
in the Sixth Corporate Plan, the KRA noted that SME businesses in Kenya are over 2.7
million and many of these are not registered for tax (KRA, 2015).

Based on the foregoing, it is evident that that SMEs are prone to engage in tax evasion.
Revenue authorities therefore need to bridge the gap between the huge tax administration
costs they incur in ensuring tax compliance of SMEs and also lower the high tax
compliance costs incurred by the SMEs. Going forward, the revenue authorities are left
with no choice but to look for alternative methods to ensure tax compliance in a bid to
minimize tax evasion.

An important point to note is that the iTax online system was introduced at a time when
the KRA was under increasing pressure to seal tax loopholes and widen its tax net. There
was also the need to increase efficiency in tax collection procedures by automating these
procedures in order to improve revenue inflows from taxes. The iTax rollout also came at
a time when there was renewed and specific focus on the SMEs’ tax compliance. The
introduction was a welcome initiative, with the KRA aiming to promote equity among
taxpayers by standardizing tax procedures. It was also seen as an effective tool for the
effective and efficient collection of tax and widening of the tax net to cover more
taxpayers, including the SMEs.
An analysis of the achievements so far as per the KRA’s Sixth Corporate Plan showed that the use of iTax in tax compliance procedures is still low and underperforming. Underperformance was recorded specifically in electronic filing of annual corporate tax returns, individual tax returns and making payments electronically. Some of the reasons put across by the KRA to try and explain the underperformance include late rollout of these modules, Kenyans been ranked poorly compared to other countries on degree of uptake of ICT and inadequate knowledge amongst taxpayers of these functionalities (KRA, 2015).

Since the introduction of the iTax online system and subsequent mandatory requirement of its use by all taxpayers, no studies have been conducted to determine the factors influencing the adoption of the iTax online system by SMEs. This could also shed light on any challenges they may be facing in adopting the online system hence necessitating this study. There was therefore the need to establish the factors influencing the adoption of the iTax online system among SMEs.

1.3 General Objective

The general objective of this study was to establish the factors influencing the adoption of the iTax online system among SMEs in Westlands, Nairobi County.

1.4 Specific Objectives

The study was guided by the following specific objectives:

1.4.1. To determine the influence of SMEs’ perceptions towards the iTax online system on its adoption.
1.4.2. To establish how SMEs’ access to internet influences their adoption of the iTax online system.
1.4.3. To determine how the SMEs’ technical skills and knowledge of use of the iTax system influences their adoption of the iTax online system.

1.5 Importance of the Study

The findings of the study will be of importance to the following stakeholders:
1.5.1 KRA Management

This study will give insight to KRA on the progress made so far in bringing on board taxpayers to the iTax online platform for ease of delivery of services and improved tax compliance. It will enhance the understanding of the Revenue Authority of the SME sector, which will enable them develop strategies to enhance compliance. It will also point out the challenges faced by taxpayers, hence providing guidance on the issues to deal with for greater efficiency in the adoption of the iTax system.

1.5.2 Government of Kenya

The government relies on revenue inflows to finance its expenditure in an economy. The study will go a long way to assist in demonstrating the factors affecting adoption of technology in improving revenue inflows. This will consequently serve as a guide or reference for other government departments and ministries as they undertake modernization programs to enhance revenue inflows.

1.5.3 SMEs

The study hopes to act as a motivation for the SMEs not on the iTax platform to register for the online services for ease of tax compliance with respect to paying taxes, filing tax returns and accessing other important tax services which have been automated. This will save on time that would have otherwise been spent in long queues waiting for service delivery at the KRA offices and avoid the costs of noncompliance.

1.5.4 Academicians and Researchers

The outcomes of the study will add to the body of knowledge to readers and researches seeking knowledge or pursuing the factors influencing the uptake of technology to access tax services and meet tax obligations required by the tax laws. The study will in essence lay a basis for further studies of adoption of technology in enhancing tax compliance.

1.6 Scope of the Study

The general objective of this study was to establish the factors influencing the adoption of the iTax online system among SMEs in Westlands, Nairobi County. The study focused on companies in the SME sector in Nairobi Westlands area.
1.7 Definition of Terms

1.7.1 Tax
A compulsory levy made by public authorities for which nothing is received in return (James, 1998, p. 142).

1.7.2 Tax computerized system
Tax computerized system means any software or hardware for use in storing, retrieving, processing or disseminating information relating to tax. (The Republic of Kenya, 2012, p. 17).

1.7.4 Tax Compliance Procedures
Tax compliance procedures include all formal procedures and related activities that taxpayers have to observe to comply with tax obligations (European Commission ( EU), 2007, p. 11).

1.7.6 iTax online system
A web based system developed to provide a fully-integrated and automated solution for administration of domestic taxes, it enables the internet based PIN registration, tax returns filing, payment registration to allow for tax payments and status inquiries with real time monitoring of accounts (Institute of Certified Public Accountants of Kenya (ICPAK), 2015).

1.7.8 Technical skills
The understanding of and proficiency in, a specific kind of activity, particularly one involving methods, processes, procedures or techniques (Katz, 1974)

1.8 Chapter Summary
This chapter provided an overview of the research area; it outlined the problem statement, the general objective, as well as the specific objectives that the study aims to achieve. Chapter two will review literature and published material on adoption of technology for tax compliance that will help expound more on factors influencing the adoption of technology for tax compliance as guided by the general and specific objectives of the study.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

The literature review in this study gives a theoretical review of the various schools of thought on uptake of information technology innovations by the intended adopters. In addition, the section highlights findings of empirical studies done by other scholars on the factors influencing the adoption of technology as guided by the specific objectives of the study.

2.2 SMEs’ perceptions towards the iTax online system

The perception of the intended user towards information technology predicts the user’s acceptance and intention to adopt the information technology. This is in line with the principles pronounced in the Technology Acceptance Model (TAM) theory. The TAM theory discusses the perceptions of the intended users of the technology and how their perceptions impact their adoption of the technology. The TAM theory was developed by Fred Davis in 1989 as a model that explains and predicts user acceptance of information (Thong, Hong, & Tam, 2002).

“The TAM theory postulates that user adoption of a new information system is determined by their intention to use the system, which in turn is determined by their beliefs about the system” (Wang, 2002, p. 335). According to Davis (1989) “The TAM theorizes that a person’s intention to adopt an information system is determined by the two beliefs namely, perceived ease of use and perceived usefulness” (p.217).

2.2.1 Perceived Ease of Use and Perceived Usefulness

Perceived Usefulness was defined by Davis (1989) as “the extent to which a person believes that using the system will enhance his or her job performance” (p.217). Davis further asserted that perceived usefulness has a direct impact on the intention to adopt a system as once the person becomes aware of the valuable functions the system possesses, they are more likely to adopt it. Davis (1989) stated that “perceived ease of use is defined as the extent to which a person believes that using the system will be free of effort”
Davis further observed that perceived ease of use influences a person’s intention to adopt the system and it also influences the person’s perceived usefulness of the system. When a system is perceived as easy to use and interact with, the person will find it useful and will increase his intention to adopt the system.

Davis (1989) emphasized that perceived usefulness and perceived ease of use are individuals subjective appraisal of performance and effort respectively, hence they are not necessarily objective. Davis however believed that though these are just human beliefs, they are meaningful variables indicating behavioral determinants of adoption of an information system.

A study done by Miller & Khera (2010) in two developing countries, Peru and Kenya sought to find out the factors influencing the adoption of a digital library system implementation at agricultural universities through TAM’s framework. They administered surveys to five hundred users and potential users of the system. The data from both countries was analysed on overall measures of perceived ease of use and perceived usefulness. Moreover, they analysed data on external factors predicting the overall measures. From their study, they established that both perceived usefulness and perceived ease of use predicted perceived intention to adopt and use the information system. An illustration of the TAM model by Miller and Khera (2010) is shown below:

Figure 2.1. Illustration of the Technology Acceptance Model (TAM)
2.2.2 External Factors Predicting Perceived Usefulness

As depicted in the diagram above, there are external factors predicting perceived usefulness. In particular, Miller & Khera (2010) established several external factors that are critical to the perceived usefulness of the information system. These included relevance, visibility, subjective norm, domain knowledge and trust in content.

Miller and Khera defined visibility as “the degree to which a given system is known within an organization” (p. 5). Thong et al. (2002) observed that with higher visibility, the benefits of using the information system would be known by potential users. This would help them perceive the functions of the system as more useful hence increasing their intention to adopt it. They therefore postulated that higher visibility leads to higher perceived usefulness of the technology innovation. Alraja, Hammami, & Alhousary (2015) on the other hand argued that governments should increase the awareness of the electronic services and the benefits of the services through using social media and not traditional mediums to be able to reach its targets with real time information.

Subjective norm is defined as “the person’s perception that most people who are important to him think he should or should not perform the behavior in question” (Fishbein & Ajzen, 1975, p. 302). Fishbein and Ajzen (1975) further stated that according to the Fishbein’s Model for the Prediction of Intentions “the general subjective norm is determined by the perceived expectations of specific referent individuals or groups and by the person’s motivation to comply with those expectations” (p. 302). Additionally, according to Miller & Khera (2010), the influence of subjective norms are culturally specific.

Relevance is described by Thong et al. (2002) as a match between the systems capability and the tasks of the user of the system. Miller and Khera (2010) noted that relevance is a critical predictor of perceived usefulness of the information technology system. Additionally, non users and low users of the system complain about the absence of their specific requirements not being met. Relevance is therefore consistent with TAM in that, the system should have the ability to enhance the user’s job performance. Miller & Khera (2010) further observed that trust in the information systems’ content is key though this is not as strong a predictor as relevance. They defined trust as “the degree of validity.
attributed by a user to a given database or set of knowledge content” (p. 6). They also noted that domain knowledge is a predictor of perceived usefulness but its not a significant predictor. “Domain knowledge is defined as the person’s knowledge of the respective discipline, domain, or area that is relevant to the database search” (p. 6).

**2.2.3 External Factors Predicting Perceived Ease of Use**

There are also several external factors that are critical to the perceived ease of use of the information system. Miller & Khera (2010) listed these external factors as computer literacy, level of infrastructure, availability of assistance, ease of access, English literacy and self-efficacy. They noted that where users have computer usage knowledge and have had prior interaction with the Internet, this positively affects their perceived ease of use of the information system thereby aiding its adoption.

Miller and Khera (2010) further explained several preconditions to the perception of an information system’s ease of use. These were the existence of support infrastructure, availability of assistance when needed, easy accessibility of the system, knowledge of the English language and the degree of self-ability to utilise a system.

**2.2.4 Extended TAM**

In his study on the adoption of electronic tax filing systems in Taiwan, Wang (2002) used the extended technology acceptance model. The extended TAM is basically the original TAM model with an additional factor of “perceived credibility”. This is in addition to the two factors namely “perceived usefulness” and “perceived ease of use”. Wang introduced the new factor based on the belief that a person’s intention to use an electronic tax filing system could be affected by his perception of the security and privacy concerns. The study was based on a sample of 260 users in Taiwan who had filed income tax returns.

Wang (2002) defined security as “protection of information or systems from unsanctioned intrusions or outflows” (p. 340). He further notes that security breach fears affect the growth of online systems. “Privacy on the other hand, refers to the protection of various types of data that are collected, with or without the knowledge of the users, during the
user’s interaction with the electronic tax filing system” (p.340). The findings of the study were that, perceived credibility had a stronger influence on the intention to adopt an online system than perceived ease of use and perceived usefulness. The recommendation from the study was that the system provides the necessary security and privacy for the intended users for a successful adoption.

2.3 SMEs’ access to internet as a factor influencing the adoption of the iTax online system

Enterprises in business, whether small or big, strive to survive and prosper in the market. To help achieve these goals, businesses must adopt proper strategies. “One of the major developments of our time that could provide the means for businesses to arrive at their desired goals is information and communication technology (ICT) and the Internet” (Hassen & Svensson, 2014, p. 1). This section reviewed various dimensions of access to internet namely: internet penetration, cost element, infrastructure and access as well as access to funds to finance internet connectivity.

2.3.1 Internet penetration

A study done by Miniwatts Marketing Group (2015) on internet usage penetration ranks Kenya at number one in Africa with an internet usage penetration rate of 69.6% as at November 2015. Out of an estimated population of 46 million Kenyans, 32 million on average are using the internet. The study observes that this number has grown tremendously considering that in the year 2000 the internet users in Kenya were only two hundred thousand. Kenya is closely followed by Morocco and Mauritius at 60.6 per cent and 60 per cent internet penetration rates respectively. Africa on average has an internet penetration rate of 28.6 per cent.

The statistics in the preceding paragraphs can be supported by the fact that Kenya’s broadband market has grown immensely. This is largely due to increased investments in this area by several players and providers. The market has several service providers including Orange Kenya, Kenya Data Networks (KDN), Jamii Telecommunications, Africa Online (Telkom), Access Kenya, Wananchi Online, Swift Global, Internet Solutions Kenya (InterConnect), Safaricom and KPLC which intends to join the list. Despite the notable investments in the ICT sector, a study by Nathan Associates Inc. (2013) on the internet’s role in the performance of SMEs in India revealed that internet
use by SMEs is lagging. Further, Nathan Associates noted that in actual sense the overall increased use of internet use could be attributed to increased uptake of technological roll outs such as third generation (3G) and fourth generation (4G) services by a youthful population.

2.3.2 Availability of Internet infrastructure

A study was done by Souter & Kerretts (2012) on internet governance in Kenya. They analysed data from secondary sources such as published statistics and policy documents by various bodies including the government agencies. They also conducted interviews with various stakeholder groups involved in internet governance in Kenya. The study revealed that there was continuous efforts to build new infrastructure to provide internet. Key developments include the introduction of 3G and 4G services to supplement existing GPRS and EDGE services that had lower capabilities. Other developments included infrastructure sharing and connectivity into rural areas.

However, Souter & Kerretts pointed out that despite these developments, internet users continued to face unreliable and slow connections, this was pronounced in the rural areas. In addition, the lack of electricity connection in many rural areas and numerous power outages further reduced the quality of internet service. Souter & Kerretts noted that indeed there was increased internet availability to individual users especially through the mobile platforms but for business purposes, many users depended on internet access in their workplaces or cybers hence the need for better internet quality.

2.3.3 Cost of adopting the internet

While recognizing the numerous advantages of online filing of tax returns in enhancing compliance, it should be noted that SMEs might face challenges both technically and financially in adopting and using the new technology (EU, 2007). There exists an inverse relationship between the cost of internet and its uptake. When the cost is low, SMEs find it easier to adopt the internet. This in turn influences the adoption of technology. A company with a higher profit is better placed to adopt technology as compared to a low earning company (Alam, 2009).

A study was done by Nathan Associates Inc. (2013) in India on the internet's role in the performance of India's SMEs. They sampled 951 SMEs from 14 industrial clusters in 19
geographical clusters in India comprising of SMEs that use internet and those that don’t. They established that SMEs not using internet were hindered by the high costs of equipment and high computer hardware prices. The SMEs felt that these costs were inhibitive. They also cited high initial internet connection costs as a barrier. The findings on the costs of internet connection and equipment costs are illustrated in the figure below:

![Figure 2.2 Effect of Costs of Equipment and Internet Connection on Internet Adoption](image)

The study by Nathan Associates Inc. (2013) additionally noted that internet connection costs were high because of poor infrastructure. Weak competition among the internet service providers (ISPs) was also identified as a barrier with a few players dominating the markets hence the high service costs. The study concluded that, in markets where there is competition by ISPs and improved infrastructure, the internet costs would be lower.

According to Ofcom (2015), SMEs when compared to larger enterprises are less able to afford the high costs associated with broadband products and in addition lack the skills and ability to negotiate for lower prices of the service packages. Galliano & Roux (2008) assert that a small firm has a lower financial capacity and is more or less likely to have diversity of skills hence translating to higher costs of adopting and using the internet.

### 2.3.4 Access to funds to finance internet connectivity

A study on barriers to the adoption of ICT by SMEs in Zimbabwe by Manuere, Gwangwawa, & Gutu (2012) brought out the challenges experienced by SMEs in accessing finance. The study noted that SMEs are perceived as high risk clients by financial institutions and hence charged higher interest rates to access finance. This
means that financing new technologies becomes almost impossible with their meagre financial resources.

Further a study conducted by Beck, Knut, & Peria (2008) on bank financing for SMEs based on an analysis of data collected from 91 banks in 45 countries including Kenya revealed interesting facts. The study, a policy research working paper for the World Bank revealed that the macroeconomic instability experienced in developing countries makes SME financing difficult. Beck et.al. in their study also found that the banks had less exposure to these small firms and they ended up having more non performing loans from them compared to other sectors. In abid to cover themselves and mitigate on the possible losses, they charge SMEs higher interest rates and fees. In addition, collateral was demanded from the SMEs yet majority of these small firms lacked collateral to use when borrowing funds.

Interestingly, the study by Beck et.al.(2008) also discovered that SMEs are perceived as profitable by banks. As a result of this perception, most banks will have specific departments set up to deal with SME clientele. This high expectation of the SMEs also acts as a driver of the higher cost of finance.

2.4 Technical skills and knowledge of use of the iTax online system

It is imperative that users of a technology system have the necessary skills to use it to perform the desired functions. This section focuses on key technical skills and knowledge needed to take advantage of the online systems. These required skills and knowledge are information technology literacy, knowledge of the taxation system and tax laws as well as having an existing support system to support and enhance these skills and knowledge.

2.4.1 SMEs’ Information Technology Literacy

Azmi & Kamarulzaman (2010) note that taxpayers who are not IT literate and are required to use the online filing system will be frustrated or anxious as they have to spend a lot of time learning the system. The Institute of Economic Affairs (2012) brought to light the fact that majority of the workers in the SME sector lack the computer skills to enable them utilize the online tax services. In a study done by Nathan Associates Inc. (2013) on the internet's role in the performance of India's SMEs, it was established that
most SMEs lacked digital literacy. This, according to the study was the reason why majority of small firms do not use internet.

Further, according to Ofcom (2015), SMEs lacked the skilled resources to manage their relationships with their internet service providers for technical and IT support. Additionally, the SMEs were not able to solve basic connectivity problems on their own. This lack of basic technical skills on internet usage acted as a barrier in the using the internet and internet based applications.

A study by Alam (2009) in Klung valley area in Malaysia aimed at establishing the factors that influenced internet adoption by the SMEs. A sample of 465 SMEs was used. The results of the study revealed that the computer knowledge and experience of the individual determined the adoption of the web application. The study recommended that the government agencies responsible for implementation of IT innovations should ensure that they address the issue of computer literacy of the people adopting the innovation. Computer literacy could be achieved through subsidised seminars and trainings.

2.4.2 Knowledge of the Taxation System

Broadly, the activities involved in tax compliance are tax registration, filing of tax returns and payment of taxes due by the due dates, good bookkeeping and keeping abreast with any tax changes in laws and procedures (EU, 2007). In essence, a taxpayer needs to be familiar with the existing tax legislations, tax law changes and have the necessary skills required to use the online tax system. It is also paramount that a taxpayer understands the various penalties imposed for non-compliance.

2.4.2.1 Taxation of SMEs

Taxation of SMEs follows their legal form; in Kenya incorporated businesses are taxed at the corporate income tax rate of thirty percent while unincorporated partnerships and sole proprietorships are taxed at the individual (PAYE) graduated scale rates. The individual graduated scale rates yield lower taxes compared to the flat tax rate of thirty percent. According to OECD (2009), the costs of incorporating a business are prohibitive for small firms. Incorporation does come with benefits such as the limited liability of the shareholders, protection of assets and better access to funds for the business. However,
the costs involved in incorporating a company including but not limited to legal fees, government fees and higher taxes on the business profits compared to unincorporated businesses are inhibitive therefore discouraging incorporation. In addition, “distributed after tax profits of an incorporated business are normally subject to shareholder-level dividend taxation, while capital gains on shares resulting from the retention of after-tax profits may be subject to capital gains taxation upon the disposition of shares” (OECD, 2009, p. 43).

In addition to corporate taxes and PAYE on gains and profits from the businesses, other taxes are also payable as per the tax laws. These include Value Added Tax (VAT), customs and excise duties, PAYE on employment income, fringe benefit tax, withholding tax and withholding VAT. In order to determine the taxes that are payable to facilitate payment and subsequent filing of tax returns, a business needs a resource knowledgeable on the various tax laws. The alternative would be to outsource the services of tax consultants at a fee.

2.4.2.2 Tax legislation changes

“One of the most important challenges perceived by businesses is the frequent changes in the tax laws, leading to uncertainty regarding the future tax treatment of transactions” (EU, 2007, p. 41). In Kenya, the bulk of tax law changes occur during the annual fiscal budget process. The Finance Bill contains the tax amendment proposals. The Bill is debated in Parliament and the final tax amendments become law once the Finance Act is enacted. Some tax law changes take effect immediately while others allow for a specific time period of up to around 6 months for the changes to become effective.

The analysis of the effect of these tax law changes on the business requires tax expertise meaning there may be a need for tax advisory services. As noted by the OECD (2015), the frequency of changes in the tax laws and the resultant difficulty of interpreting and implementing them necessitates outsourcing of tax services from the tax experts. This means an additional cost to the already existing operational costs. Moreover, the tax law changes may necessitate changes in the business processes and the Enterprise Resource Planning (ERP) systems which is an additional cost.
2.4.3 Knowledge of filing tax returns and processing tax payments electronically

The use of an online tax system for online tax payments, filing tax returns and general use of the system requires an employee knowledgeable on how to perform these duties. This means recruiting a resource to perform these tasks or outsourcing these services. In the case of a sole proprietor, they would need to be able to perform these tasks if they are not able to hire an extra resource. Moreover, Azmi & Kamarulzaman (2010) observed that the effort spent in understanding and learning the online system may be burdening to the taxpayers who are not able to access online help as and when needed.

A study on the models for adoption of e-tax returns was done by Barati, Moradi, Ahmadi, & Azizpour (2014) in Iran. A sample of 382 taxpayers was selected to delve into the models for adoption of electronic tax returns from the perspective of the taxpayers. One of the hypotheses that was tested in the study was whether there was a significant relationship between taxpayers access to information to provide the know how of using the system and their adoption of the e-tax system. The study established that when taxpayers have access to information to provide guidance and familiarity towards the adoption of the electronic tax returns, this is of great significance for increasing a positive attitude towards adoption.

In addition to the knowledge on how to make online tax payments, file tax returns and general use of the system, SMEs are required to be up to date with the payments and return filing deadlines. They are required to comply with the stipulated due dates else tax penalties and interest accrue. The payment and tax returns due dates according to KRA (2013) are detailed in the table below:
Table 2.1: Tax payments and return filing due dates

<table>
<thead>
<tr>
<th>Tax type</th>
<th>Payment due date</th>
<th>Return due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAYE</td>
<td>9th of the month following the month of payroll deduction</td>
<td>Monthly return on 9th of the month following the month of payroll deduction. In addition, individuals file an annual income tax return due on 30th June following the end of the year of income.</td>
</tr>
<tr>
<td>VAT</td>
<td>20th of the month following the month of deduction</td>
<td>Monthly return on 20th of the month following the month of deduction.</td>
</tr>
<tr>
<td>Corporation Tax</td>
<td>30th of the fourth month after the company’s financial year end. In addition instalment taxes are paid in four instalments spread throughout the year</td>
<td>Annual return on 30th of the sixth month after the company’s financial year end</td>
</tr>
<tr>
<td>Withholding tax</td>
<td>20th of the month following the month of deduction</td>
<td>None</td>
</tr>
<tr>
<td>Excise Duty</td>
<td>20th of the month following the month of deduction</td>
<td>Monthly return on 20th of the month following the month of deduction</td>
</tr>
</tbody>
</table>

Source: (KRA, 2013)

2.4.4 Penalties for non-compliance

Knowledge of the penalties imposed on noncompliance is crucial. The various tax laws impose significant penalties and additional interest that accrues monthly for every month the tax payment remains outstanding. Failure to file tax returns also attracts a penalty. The newly enacted Tax Procedures Act (TPA) sets out the below penalties covering the income taxes (personal, withholding and corporate taxes), VAT and excise duty:
Table 2.2: Penalties and Interest charged for Noncompliance

<table>
<thead>
<tr>
<th>Issue</th>
<th>Relevant penalties and Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Late submission of tax returns (submitting</td>
<td>PAYE: 25% of balance of tax or Kshs 10,000 whichever is higher;</td>
</tr>
<tr>
<td>a return after the due date)</td>
<td>Kshs 5,000 for turnover tax;</td>
</tr>
<tr>
<td></td>
<td>5% of balance of tax or Kshs 20,000 whichever is higher for all other</td>
</tr>
<tr>
<td></td>
<td>taxes.</td>
</tr>
<tr>
<td>Late tax payment interest</td>
<td>1% per month the tax remains unpaid</td>
</tr>
<tr>
<td>Failure to pay tax by the due date</td>
<td>20% of the unpaid tax</td>
</tr>
</tbody>
</table>

**Source** (The Republic of Kenya, 2015, pp. 1895-1896)

### 2.4.5 Availability of user support and assistance

A study done by EU (2007) in its member states to establish simplified tax compliance procedures for its 23 million SMEs observed that “the main information channels of tax administrations are brochures and websites. In some cases, small enterprises could also receive information via e-mail services, at training sessions and seminars and from the help desk and call centres of the tax administration” (p. 6). Furthermore, the study noted that in countries where income tax returns and payroll tax returns are filed electronically, “programmes to help with filling in declarations could be adapted to the needs of SMEs” (p.6). The study also recommended a possible improvement to electronic filing by having good tax templates for online filing that have a simple layout with no difficult technical terms. Overall, information, advice and training in form of seminars can help ensure that SMEs are fully aware of and that they understand their obligations (EU, 2007).

Additionally, Alanezi, Mahmood, and Basri (2012) explained that user support for an online system has two dimensions namely: responsiveness and contact. They illustrated the dimensions and action items on each in a table as shown below:
Table 2.3: User Support

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Action Item</th>
</tr>
</thead>
</table>
| Responsiveness | Always willing to help users  
|              | Advises on what step to take if request is not processed  
|              | Never too busy to respond to requests  
|              | Giving clear answers to requests                                                               |
| Contact     | Provides a telephone number for the organization  
|             | Has customer services available online  
|             | Can speak to an agency representative in case of any problem or query  
|             | Provides full address for the organization                                                     |

Source: Alanezi et al.(2012) (p.14)

2.5 Chapter Summary

This chapter presented a review of the available literature on the factors influencing the adoption of technology for tax compliance by SMEs. The review discussed how SMEs’ perceptions towards technology affects their adoption of the technology, how access to internet by SMEs affects their adoption of technology for tax compliance and lastly how the technical skills and knowledge of use of the system affects its adoption. Chapter three will cover the research design and methodology adopted for this study.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research methodology that was adopted for this study. It details the research design, the target population, sampling frame and the sample size. This section also outlines the data collection methods that were used to collect data and data analysis methods adopted.

3.2 Research Design

Cooper & Schindler (2014) define a research design as a blueprint or framework for collection, measurement and analysis of data, a plan or procedural outline that enables a researcher obtain answers to research questions. Krishnaswami & Satyaprasad (2010) on the other hand define a research design as a “logical and systematic plan prepared for directing a research study, it specifies the objectives of the study, the methodology and techniques to be adopted for achieving the objectives” (p. 40).

According to Cooper & Schindler (2014), depending on the degree to which the research questions have been crystallized or formed a study can be viewed as exploratory or formal(descriptive). They define an exploratory study as one whose objective is to develop hypotheses or questions for further research, used when researchers don’t have a clear outline of the research problems hence through exploration they develop concepts more clearly. They observe that formal/descriptive studies on the other hand begin with a hypothesis or research questions clearly outlined, the objective was to test the hypothesis or answer the research questions in a study.

Based on the foregoing, as the study’s goal was to answer the research questions posed, it has been classified as a descriptive research. Moreover, the research was a descriptive study that sought to find the factors influencing the adoption of the iTax online system among SMEs in Westlands, Nairobi County. With regard to the time dimension, the study was a cross-sectional study as data was collected from different samples at a particular point in time. As defined by Cooper & Schindler(2014), a cross-sectional study is one carried out once at one point in time.
The dependent variable in this study is the adoption of the iTax online system by SMEs. The study has three independent variables. These are: SMEs’ perception towards the iTax online system, SMEs’ access to internet and SMEs’ technical skills and knowledge of use of the iTax online system.

3.3 Population and Sampling Design

3.3.1 Population

Krishnaswami & Satyaprasad (2010) defined a population as “the aggregate of elements about which we wish to make inferences” (p. 51). In this study the population was 120 small companies located in Westlands who have subscribed to the online advertising services of the website, www.businesslist.co.ke. In their nature, many of these do not have their own websites hence necessitating the online advertising services to expose their small businesses. It is therefore most probable that they meet the MSME bill (2009) definition of SMEs.

3.3.2 Sampling Design

3.3.2.1 Sampling Frame

Cooper and Schindler (2014) deem a sample frame to be a “listing of all population elements from which the sample will be drawn (p. 338). The sampling frame for this study was the 120 small companies located in Westlands who have subscribed to the online advertising services of the website, www.businesslist.co.ke.

3.3.2.2 Sampling Technique

A sampling technique is the method of selecting some part of a population to be able to observe it and infer something about the entire population (Thompson, 2012). Simple random sampling technique was adopted to select the sample. According to Krishnaswami & Satyaprasad (2010), simple random sampling gives each element an equal probability of being selected. In other words, every element will have an equal chance of being chosen. This method is suitable when the population is relatively small and it is a homogeneous group.
3.3.2.3 Sample Size

A sample is a proportion of a population that represents the population. Using the sample size calculator from custominsight.com at 90% confidence level and a confidence interval of +/-6 a sample size of 73 SMEs was obtained from the original 120 SMEs forming the entire population.

3.4 Data Collection methods

The study employed primary data. This is data which was not been previously collected, it is gathered first hand (Krishnaswami & Satyaprasad, 2010). The primary data was collected using structured questionnaires developed and organized on the basis of the research questions. Saunders, Lewis, & Thornhill (2003) observe that a questionnaire is used to collect data by asking exactly the same set of questions, they collect descriptive data about opinions, behaviours and attributes and can be coded to allow analysis.

The questionnaires were distributed to finance managers, accountants or owners of the SMEs. The responses helped in gaining an in-depth understanding of the factors influencing the adoption of iTax online system by the SMEs. In most questions, a 5 point Likert scale was used to indicate the degree of agreement or disagreement.

3.5 Research Procedures

In order to determine the validity and reliability of the research instrument the questionnaire was tested. As emphasised by Cooper & Schindler (2014), a pilot test can detect weaknesses and errors in design of the questionnaire and is used to refine it by identifying and changing confusing, unclear or offensive questions. Saunders et.al. (2003) in agreement noted that a pilot test refines the questionnaire so that respondents will have no problem answering and at the same time it ensures recording of data by the researcher will be free of any problems. They recommended that an expert can be used to comment on the suitability and content validity of the questions. In line with this, the questionnaire was tested using a research expert’s opinion. Further a tax consultant’s opinion was sought on the suitability of the questions. Based on the feedback received, the questionnaire was refined.
The refined questionnaire was then distributed to the respondents within the Westlands area of the Nairobi County. Since all respondents were located within the Westlands area, the questionnaires were distributed through drop and pick method. The participants who were not able to fill in the questionnaire immediately were allowed some extra time for them to fill in the questionnaires to avoid putting them under undue pressure. In addition, to ensure a higher response rate from the participants, follow up visits and calls were made.

Additionally, to ensure a high response rate, a cover letter to elaborate the academic purpose of the research was issued to the participants. The responses to the questionnaires were confidential and the respondents were not required to provide their names. As noted by Saunders et.al. (2003), anonymity is important especially when sensitive information is sought. Tax information is sensitive and private to businesses hence the need for anonymity.

### 3.6 Data Analysis Methods

A total of 62 sampled respondents completed the questionnaires translating to an 85% response rate. The completed questionnaires’ responses were edited for completeness and consistency. The data was then coded to enable analysis using quantitative data analysis methods. Saunders et.al. (2003) observe that all data types should be recorded using numerical codes to enable faster entry of data with minimal entry error to allow for analysis, once entered and checked for errors, data analysis can be undertaken.

At the initial stages of the data analysis, diagrams, tables, charts, graphs were used to enable the researcher explore and understand the data collected. This was done keeping the research questions in mind to guide the exploration. These methods enabled presentation of specific values, highest and lowest values. They also displayed trends, proportions and showed distribution of values as well as a comparison of variables.

The data was also described using descriptive statistics. Saunders et.al. (2003) note that descriptive statistics enables the researcher to describe and compare variables numerically. They categorized descriptive statistics into two: measures of central tendency and measures of dispersion. Measures of central tendencies include the mode that represents the value that occurs most frequently, median which is the mid-point after the
data has been ranked and mean which is the average that includes all data values in its calculation. Measures of dispersion on the other hand show how data is dispersed around the central tendency and it is only for quantifiable data, they include: the range which is the difference between the highest and lowest values, inter-quartile range that states the difference within the middle 50% of values, deciles or percentiles showing the difference within a fraction of the values, variance which is the extent to which the data differs from the mean and coefficient of variation which compares the extent to which the data differs from the mean between variables.

Lastly, the data collected was analyzed using Ms. Excel and SPSS.

3.7 Chapter Summary

The chapter outlined the research methodology that was employed to carry out this study. First the target population was defined, then the sampling frame, sampling technique and sample size were described. The study was designed as a descriptive research. Furthermore, the chapter presented a discussion on the type of data, data collection methods and the data collection instrument that was used. The research procedures including pilot testing and administration of the questionnaires have been discussed. Lastly, the chapter has presented the data analysis methods that were used to analyze the data collected. Chapter 4 will present results and findings of the data collected.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

The chapter provides a presentation and analysis of the research findings from the data collected from the sampled respondents as set out in the research objective and methodology. The responses were analysed and the results and findings presented in the form of tables and charts for easier interpretation. The chapter is divided into various sections each providing a presentation of the different results and findings. A summary of the whole chapter has been done at the end of the chapter.

4.1.1 Response rate

The study targeted 73 respondents in collecting data with regard to the factors influencing the adoption of the iTax online system among SMEs in Westlands, Nairobi County. A total of 62 sampled respondents completed the questionnaires translating to an 85% response rate.

4.2 Background Information

Background information of the respondents was sought to gain a better understanding of the respondents of the study. The information sought included gender, level of education, business activity, number of employees in the business, average monthly turnover and how the businesses registered for the PINs.

4.2.1 Gender

The results as presented in Table 4.1 showed that the number of the male respondents were slightly higher the female respondents. The male respondents formed 53% of the total number of respondents while the females were 47% of the total respondents.
Table 4.1: Gender

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>33</td>
<td>53</td>
</tr>
<tr>
<td>Female</td>
<td>29</td>
<td>47</td>
</tr>
<tr>
<td>Total</td>
<td>62</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2.2 Level of Education

The results showed that all the respondents had achieved the secondary level of education and above with 40% of the respondents having attained an undergraduate degree. The results give an indication that the respondents understood the questionnaire for purposes of collecting the data. The results are presented in the table below:

Table 4.2: Level of Education

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secondary</td>
<td>11</td>
<td>18</td>
</tr>
<tr>
<td>Technical / Vocational</td>
<td>16</td>
<td>26</td>
</tr>
<tr>
<td>Undergraduate</td>
<td>25</td>
<td>40</td>
</tr>
<tr>
<td>Postgraduate</td>
<td>10</td>
<td>16</td>
</tr>
<tr>
<td>Total</td>
<td>62</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2.3 Nature of business activity

The table 4.3 below shows the percentages of different types of the business activity which the SMEs sampled engaged in. Most of the SMEs respondents engaged in general trading activities such as hardware shops, beauty shops and general shops. These formed 47% of the respondents. This was closely followed at 40% by SMEs in the service industry. The respondents in the ICT sector formed 8% of the sample while hospitality and manufacturing firms comprised of 3% and 2% respectively.
Table 4.3: Nature of business activity

<table>
<thead>
<tr>
<th>Nature of business activity</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICT</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>General trading e.g. hardware, beauty industry, sales</td>
<td>29</td>
<td>47</td>
</tr>
<tr>
<td>Hospitality</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Service</td>
<td>25</td>
<td>40</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>62</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2.4 Number of employees

The study sought to evaluate the number of employees that are employed by each firm sampled for study. This was intended to provide an understanding of the size of the business. Firms with between 0 and 20 employees were classified in class A while those with 21 to 40 employees were classified in category B. Firms with employees between 41-60, 61-80 and 81 to 100 were grouped into group C, D and E respectively. The analysis of the number of employees is presented in the pie chart below:

Figure 4.1 Number of employees
The pie chart shows that 89% of the SMEs sampled had less than 20 employees. This is supported by the nature and capital base of SMEs which only allow a limited scale of activities. SMEs with between 21 and 40 employees comprised of 8% of the total sample. Those with above 41 employees and above only contributed to the remaining 5%.

4.2.5 Average monthly sales

Based on the results shown in figure 4.2 below, 77% of the SMEs sampled had an average monthly turnover of between Kshs 42,000 and Kshs 416,000. This translates to an annual turnover of between Kshs 504,000 and Kshs 4.9 million. This turnover fits the definition of SMEs as per the MSME bill. The SMEs with a monthly turnover exceeding Kshs 416,000 up to Kshs 67 million formed the remaining 23% of the sample. This represents the medium enterprises as per the definition provided by the MSME bill.

![Figure 4.2 Average monthly sales](image)

4.2.5 Mode of registering the PIN number

The study also sought to find out how the respondents obtained their PIN numbers. This would give a clue on how many of them had a chance to utilise the online tax system before the mandatory use of the iTax system was introduced. The results presented below revealed that more than half of the respondents obtained their PIN numbers through the online system as opposed to the manual route of applying at a KRA station.
4.3 Perception of the SMEs towards the iTax online system

Table 4.4 provides the results of the responses on statements seeking to find out the perception of the SMEs towards the iTax online system. The study found that most respondents strongly felt that iTax was a beneficial system with a mean of more than 4. The respondents who concurred that it was a beneficial idea were 87% with 11% not sure whether it was a beneficial idea. Only 2% felt it was not a beneficial idea. In the same accord, the respondents strongly agreed that the introduction of the iTax online system had motivated them to voluntarily comply with their tax obligations with a mean score value of 4.6. More so, respondents strongly acknowledged that they prefer the iTax online system compared to the manual system of tax registration and manual filing of tax returns with a mean score value of 4.5. Those that indicated preference of the online system to the manual system formed the highest percentage at 94%. Seventy one percent of the respondents also confirmed that the idea of submitting tax returns on the iTax online system did not make them uncomfortable while 55% indicated that they did not feel that the online system would infringe on their privacy. The respondents that were unsure on whether iTax would infringe on their privacy formed 23% of the total respondents.
The results further showed that the adoption of iTax by the SMEs’ business peers had motivated them to adopt it. In the same way the 50% of the respondents strongly felt that their competency in computers had motivated them to adopt the iTax online system with an overall mean score of 4.2. However, a significant percent of 77% of the respondents indicated that they felt that the Kenya Revenue Authority had done little to ensure that they know how to use the iTax online system with a mean score value of 3.7.

Table 4.4 Descriptive analysis of Perception of the SMEs towards iTax System

<table>
<thead>
<tr>
<th>Perception of the SMEs towards iTax System</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Skewness</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Statistic</td>
<td>Statistic</td>
<td>Statistic</td>
<td>Statistic Error</td>
<td>Statistic</td>
<td>Statistic Error</td>
</tr>
<tr>
<td>I believe the introduction of iTax online system is a beneficial idea.</td>
<td>62</td>
<td>1.00</td>
<td>5.00</td>
<td>4.419</td>
<td>.10424</td>
<td>.82080</td>
</tr>
<tr>
<td>The introduction of iTax has motivated me to voluntary comply with my tax obligations.</td>
<td>61</td>
<td>2.00</td>
<td>6.00</td>
<td>4.573</td>
<td>.09484</td>
<td>.74070</td>
</tr>
<tr>
<td>I prefer the online services in comparison to the manual system of tax registration and submission of tax returns.</td>
<td>62</td>
<td>1.00</td>
<td>5.00</td>
<td>4.532</td>
<td>.10467</td>
<td>.82418</td>
</tr>
<tr>
<td>The idea of submitting my tax returns online makes me uncomfortable.</td>
<td>62</td>
<td>1.00</td>
<td>5.00</td>
<td>2.258</td>
<td>.16412</td>
<td>1.29229</td>
</tr>
<tr>
<td>I feel I will no longer have privacy in my business when I use the iTax online system.</td>
<td>62</td>
<td>1.00</td>
<td>5.00</td>
<td>2.516</td>
<td>.18069</td>
<td>1.42279</td>
</tr>
<tr>
<td>I feel that the online system will not ease the work of preparation of tax returns and payments.</td>
<td>62</td>
<td>1.00</td>
<td>5.00</td>
<td>2.209</td>
<td>.14749</td>
<td>1.16136</td>
</tr>
<tr>
<td>KRA has not put in place enough measures to ensure that taxpayers know how to use the iTax online system.</td>
<td>62</td>
<td>1.00</td>
<td>5.00</td>
<td>3.693</td>
<td>.15356</td>
<td>1.20910</td>
</tr>
<tr>
<td>My business peers’ adoption of the iTax online system has motivated me to adopt the system.</td>
<td>62</td>
<td>2.00</td>
<td>5.00</td>
<td>3.677</td>
<td>.13561</td>
<td>1.06777</td>
</tr>
<tr>
<td>My knowledge of computer usage has motivated me to adopt the iTax online system.</td>
<td>62</td>
<td>1.00</td>
<td>5.00</td>
<td>4.209</td>
<td>.12832</td>
<td>1.01039</td>
</tr>
</tbody>
</table>

Valid N (listwise) 62
4.4 Access to Internet

4.4.1 Frequency of accessing internet

The results as presented in the table 4.5 below shows a large percent of 95% of SMEs respondents access internet daily with a small per cent of only 5% accessing it weekly.

Table 4.5 Frequency of accessing internet

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daily</td>
<td>59</td>
</tr>
<tr>
<td>Weekly</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>62</td>
</tr>
</tbody>
</table>

4.4.2 Mode of internet Access

The findings as presented in figure 4.4 showed that from the sample that was picked, 65% of the respondents access the internet from their offices while 11% of those sampled access the internet from their homes. It was also established that 6% and 18% of the SMEs access internet from cyber cafes and mobile phones respectively.

Figure 4.4 Mode of internet access
4.4.3 Costs of accessing the internet

Table 4.6 presents the descriptive statistics after an analysis of the responses to statements relating to access to internet and the internet accessibility costs.

**Table 4.6 Responses to statements on cost of accessing internet**

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Skewness</th>
</tr>
</thead>
<tbody>
<tr>
<td>I find the monthly cost of internet access affordable.</td>
<td>62</td>
<td>1.00</td>
<td>5.00</td>
<td>3.8871</td>
<td>1.20252</td>
<td>-1.004</td>
</tr>
<tr>
<td>I find the cost of purchasing a computer too high for my business.</td>
<td>62</td>
<td>1.00</td>
<td>5.00</td>
<td>2.6290</td>
<td>1.24445</td>
<td>.381</td>
</tr>
<tr>
<td>I find the cost of maintaining a computer for accessing internet to file tax returns too expensive.</td>
<td>62</td>
<td>1.00</td>
<td>5.00</td>
<td>3.0484</td>
<td>1.40756</td>
<td>.057</td>
</tr>
<tr>
<td>Accessing finance from Financial institutions to equip my business with internet expensive for my business.</td>
<td>62</td>
<td>1.00</td>
<td>5.00</td>
<td>2.9516</td>
<td>1.27302</td>
<td>.143</td>
</tr>
<tr>
<td>Valid N (list wise)</td>
<td>62</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The respondents were opined that monthly internet charges were affordable with the mean inclined towards 4(strongly agree). The cost of maintaining the computers needed to access the internet was found to be relatively high as the respondents agreed to the statement with a mean of 2.6 which is close to 3. This is in addition to most respondents
feeling that the computer maintenance costs were high and obtaining the necessary finances to equip the business was difficult. The results have also been analysed in Table 4.7 below:

Table 4.7 Descriptive analysis of the elements of internet related costs

<table>
<thead>
<tr>
<th></th>
<th>Monthly cost of internet access affordable</th>
<th>Comput er purchase cost too high</th>
<th>Maintaining computers expensive</th>
<th>Accessing finance to equip business with internet</th>
<th>Zscore (Internet access)</th>
<th>Zscore (computer purchase)</th>
<th>Zscore (maintenance expense)</th>
<th>Zscore (finance expense)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Missing</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Mean</td>
<td>3.8871</td>
<td>2.629</td>
<td>3.0484</td>
<td>2.9516</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Median</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>0.09389</td>
<td>-0.50547</td>
<td>-0.03438</td>
<td>0.03801</td>
</tr>
<tr>
<td>Mode</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>0.09389</td>
<td>-0.50547</td>
<td>-0.74483</td>
<td>-0.74753</td>
</tr>
</tbody>
</table>

4.5 Technical skills and knowledge of using the iTax online system

4.5.1 Level of computer skills

The respondents were asked to honestly assess their level of computer skills. The questionnaire required them to indicate whether as per their own assessment their competency levels were very good, good, fairly good, poor and extremely poor. The figure 4.5 below shows the distribution in percentage. The majority of the respondents were confident about their computer skills forming an aggregate percent of 95%. Only 5% of the respondents had poor computer skills.
Figure 4.5 Level of computer skills

4.5.2 Responsibility of filing tax returns for the business

Based on the findings presented in figure 4.6 below, the filing of tax returns for the SMEs is done majorly by the owners of the businesses. Thirty six percent of the tax returns were filed by the accountants employed by the SMEs. Only a small percentage of the sampled SMEs had outsourced services of tax consultants and accounting firms to assist with the filing of the tax returns. The percent of those who outsourced services formed an aggregate of 8%.

Figure 4.6 Responsibility of filing tax returns for the business
4.5.3 Knowledge of the taxation system and use of the iTax online system

Table 4.8 presents the descriptive parameters after an analysis of the responses to statements relating to the SMEs’ knowledge of the Kenyan taxation system and the technical know how of using the iTax online system.

Table 4.8 Descriptive analysis of the responses to statements on knowledge of the taxation system and use of the iTax online system

<table>
<thead>
<tr>
<th>Statistic</th>
<th>N</th>
<th>Range</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Error</th>
<th>Skewness</th>
</tr>
</thead>
<tbody>
<tr>
<td>I understand the tax obligations of my business</td>
<td>62</td>
<td>4.00</td>
<td>1.00</td>
<td>5.00</td>
<td>4.4355</td>
<td>.09923</td>
<td>-1.803</td>
</tr>
<tr>
<td>I can correctly calculate the taxes I should pay to KRA.</td>
<td>62</td>
<td>3.00</td>
<td>2.00</td>
<td>5.00</td>
<td>4.0806</td>
<td>.12658</td>
<td>99669</td>
</tr>
<tr>
<td>I know how to register my business on the iTax online system.</td>
<td>62</td>
<td>4.00</td>
<td>1.00</td>
<td>5.00</td>
<td>4.1613</td>
<td>.11311</td>
<td>89064</td>
</tr>
<tr>
<td>I can pay taxes using the iTax online platform.</td>
<td>62</td>
<td>4.00</td>
<td>1.00</td>
<td>5.00</td>
<td>4.1774</td>
<td>.11388</td>
<td>89670</td>
</tr>
<tr>
<td>I know how to file returns on the iTax online system</td>
<td>62</td>
<td>4.00</td>
<td>1.00</td>
<td>5.00</td>
<td>4.1774</td>
<td>.11618</td>
<td>91480</td>
</tr>
<tr>
<td>I can view my tax records on the iTax online system</td>
<td>62</td>
<td>4.00</td>
<td>1.00</td>
<td>5.00</td>
<td>4.1774</td>
<td>.12282</td>
<td>96707</td>
</tr>
<tr>
<td>I know the penalties for failure to file tax returns on the iTax online system</td>
<td>62</td>
<td>4.00</td>
<td>1.00</td>
<td>5.00</td>
<td>3.9839</td>
<td>.14451</td>
<td>1.13790</td>
</tr>
<tr>
<td>I do not know when tax laws change</td>
<td>62</td>
<td>4.00</td>
<td>1.00</td>
<td>5.00</td>
<td>3.4355</td>
<td>.16522</td>
<td>1.30096</td>
</tr>
<tr>
<td>I employ the services of a tax consultant to advise me on tax matters.</td>
<td>62</td>
<td>4.00</td>
<td>1.00</td>
<td>5.00</td>
<td>2.9032</td>
<td>.14308</td>
<td>1.12657</td>
</tr>
<tr>
<td>The current tax laws impose a penalty of Kshs 100,000 for failure to pay tax and file tax returns electronically through the iTax online system.</td>
<td>62</td>
<td>4.00</td>
<td>1.00</td>
<td>5.00</td>
<td>2.8710</td>
<td>.12056</td>
<td>94927</td>
</tr>
</tbody>
</table>

The results as presented in Table 4.8 above shows that the respondents strongly agreed that they understood the tax obligations of the business with a mean score value of 4.4. An aggregate of 90% of the respondents indicated that they knew how to calculate the taxes they ought to pay. The study also showed that most SMEs knew how to register their businesses on the iTax online system supported by a mean score value of 4.2. In the
same breath, the respondents strongly agreed that they could file online tax returns, pay taxes online and view their tax records online with a mean score of 4.2 for the three statements.

The results also showed that the respondents were fairly informed about the penalties payable for failure to submit their tax returns online. This was supported by a mean of about 3.98. With regard to tax law changes, 52% of the respondents indicated that did not know when the tax laws change, 19% indicated they were unsure of when the tax laws change, only 29% were aware when tax laws change. An interesting dimension discovered by the study was that most SMEs didn’t employ tax consultants to advise them on tax matters. This is because only a mean core value of 2.9 was obtained from the sample selected representing only 34% of the respondents who indicated that they employed the services of a tax consultant. It was also established that a small percent of 18% of the respondents, knew about the imposition of the Kshs 100,000 penalty for failure to pay tax and file tax returns electronically through the iTax online system as required by the law.

4.6 Chapter Summary

The chapter presents the results and findings after an analysis of the primary data collected from the respondents. The results and findings are presented in the form of tables and charts. Descriptive statistics after an analysis of the data has also been presented. In the next chapter, the discussions of the results will be done and conclusions as well as recommendations for further studies provided.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the study and makes conclusions based on the results from the study. The first section 5.2 provides a summary of the important elements of the study which includes the study objectives, methodology and the results of the study. The following subsequent sections discuss the important findings of the study with regards to the general objectives set out. Section 5.3 which is the discussion section provides a discussion of the results obtained from the study. The conclusion of the study is discussed in section 5.4. The last section 5.5 provides the recommendations for improvement for implementation by the concerned stakeholders based on the research findings. This section also provides suggestions for further studies based on research findings and further gaps identified in this specific topic of study.

5.2 Summary of the findings

The general objective of the study was to establish the factors influencing the adoption of the iTax online system among SMEs in Westlands, Nairobi County. The specific objectives were as follows: to determine the influence of SMEs’ perceptions towards the iTax online system on its adoption, to establish how SMEs’ access to internet influences their adoption of the iTax online system and to determine how the SMEs’ technical skills and knowledge of use of the iTax system influences their adoption of the iTax online system.

The study adopted the descriptive research design. In order to achieve the research objectives, collection of primary data was important to as to get the original and accurate perceptions from the targeted respondents. Primary data was collected through the use of questionnaires. A sample of 73 firms within the Westlands area in Nairobi County was drawn from a population of 120 firms as a representative of the total population. A total of 62 sampled respondents completed the questionnaires translating to an 85% response rate. Data from the completed questionnaires was summarised in Microsoft Excel and coded so as to run descriptive statistics. The study used SPSS Version 20 to analyse the
feedback and generate descriptive statistics which were used to make inferences on the population based on the results obtained. Descriptive statistics obtained included mean, median, standard deviation, frequencies and percentages. These were presented in tables and charts.

The results of the study showed that the male respondents were more than the female respondents. All the respondents had achieved secondary education and above hence giving an indication that they understood the questionnaires for purposes of collecting the data. Most of the SMEs engaged in general trading activities such as hardware shops, beauty shops and general shops. The respondents met the SME definition as provided for in the MSME bill in Kenya. In addition 52% of the respondents had obtained their PIN numbers through the online system as opposed to the manual route of applying at a KRA office.

With regard to the SMEs’ perceptions towards the iTax online system, the study revealed that a significant number of respondents strongly believed that iTax was a beneficial idea with a mean score value of more than 4. The respondents strongly agreed that the introduction of the iTax online system had motivated them to comply with their tax obligations with a mean score value of 4.5. A significant percent of 94% preferred the online system as opposed to the manual system. The respondents confirmed that they would be comfortable while using the iTax online system and 55% indicated that they do not feel using it would interfere with their privacy. Twenty three percent of the respondents were not sure whether iTax would infringe on their privacy. At the same time, 77% of the respondents felt more needed to be done by the KRA to ensure the taxpayers know how to utilise the iTax online system.

The study further revealed that most SMEs accessed internet daily with 65% accessing it from their business premises. It was also established that the SMEs found the monthly cost of internet affordable. However, the SMEs were of the view that the costs of purchasing the computer hardware, maintaining it and the initial internet set up costs are generally inhibitive.
The study also revealed that most respondents had good computer skills that would enable them to adopt the iTax online system. The SMEs’ owners filed the corporate tax returns of the businesses with only 8% outsourcing these services to a tax consultant or accounting firm. The results also showed that the respondents strongly agreed that they did understand the tax obligations of their businesses with a mean score value of 4.4. In the same breadth, the respondents indicated that they knew how to register their businesses online, calculate correct taxes and file tax returns with a mean score value of 4.2. Those that were unsure of their knowledge to perform these tasks formed 13% of the total respondents.

The study also revealed that the SMEs have a challenge with keeping abreast with tax laws changes. As a result they are not able to adjust their businesses accordingly. A small percent of 29% of the respondents indicated they knew when tax laws change. The study also found that majority of the SMEs do not employ the services of a tax consultant to advise them on tax matters.

5.3 Discussion

5.3.1 Influence of SMEs’ perception towards the iTax online system on its adoption

This study sought to seek the opinion of the SMEs on the introduction of iTax online system in a bid to understand how they perceive the online system. The study was guided by the principles pronounced in the Technology Acceptance Model (TAM) postulated by Fred Davis (1989). The study found that a significant number of respondents strongly believed that the introduction of iTax was a beneficial idea at 54%. Combined with those who also agreed to the same, an aggregate percent of 87% was achieved. Further, a significant percent of respondents at 94% preferred the iTax online system to the manual system of tax registration and submission of tax returns. These two findings point to a positive influence on the adoption of the iTax online system by the SMEs. This is in line with the TAM theory that postulates that when a person perceives that using a system will enhance their job performance, this has a direct impact on the intention to adopt the system (Davis, 1989).
The respondents also confirmed that they felt that the iTax online system did not infringe on their privacy. Therefore, submitting tax returns online would not make them uncomfortable. This can be interpreted to have a positive influence on the adoption of the iTax online system as when the SMEs are comfortable submitting information requested online then it is much easier for adoption to take place. This is confirmed by the findings of a study done by Wang (2002) on the adoption of electronic tax filing systems in Taiwan. Wang found that where users have confidence in an online system’s credibility with regard to offering the necessary protection and privacy to their data then this has a strong influence on the intention to adopt the system.

Another positive finding was that 89% of the respondents attributed their increased motivation to voluntarily comply with their tax obligations to the introduction of the iTax system. This can be attributed to the positive perceptions of the iTax online system that would translate to enhanced tax compliance in general. This finding was consistent with Ndunda, Ngahu, & Wanyoike (2015) on the effect on optimal tax collection whereby the perception of the systems of collecting tax were found to be of importance in determining compliance.

With regard to perceived ease of use of the iTax online system, 73% of the respondents perceived that the online system would ease their work of preparing tax returns and making tax payments. This has a positive influence on the adoption of the iTax online system in line with Davis (1989) TAM model that postulates that when an online system is perceived easy to use and interact with, the individual will find it useful hence increasing the intention to adopt it.

On the other hand, an interesting finding that could act as a point for improvement is that 77% of the respondents concurred that the KRA has not put in place enough measures to ensure that the taxpayers knew how to use the iTax online system. This has a negative impact on intention to adopt the iTax online system in line with the TAM model that describes perceived ease of use as “the extent to which a person believes that using the system will be free of effort” (Davis, 1989, p. 217). It essentially means that if a person does not know how to go about using the system because of the lack of training by the implementers of the system, then the perceived ease of use is negatively impacted.
5.3.2 SMEs’ access to internet as a factor affecting iTax online system adoption

The study found that 95% of the SMEs accessed internet daily. Moreover, 65% of the SMEs accessed internet from their business premises or offices with a small percent using cyber cafes to access internet. This means that most SMEs incur monthly internet charges by the various internet service providers (ISPs). The daily use of internet and significant access of the internet by the SMEs is in line with the findings of a study done by Miniwatts Marketing Group (2015) on internet usage penetration. The study observed that the 2015 internet usage penetration rate in Kenya was at 69.6%. Moreover, the Sector Reports by the Communications Authority of Kenya (2015) for the quarter July to September 2015 noted that the number of internet users had grown to 31.9 million. This represented an internet penetration rate of 74.2% having grown from 69% recorded in the previous quarter. The growing demand for internet services and reduced cost of internet enabled devices was identified as a key driver of the high internet penetration levels.

The study also revealed that the SMEs found the monthly cost of internet affordable. This can be attributed to the tremendous growth in Kenya’s broadband market allowing competition and hence lower internet costs. This is line with the findings of a study done by Graham & Sabbata (2014) on broadband affordability. The study found that by the year 2011, the broadband costs in Kenya were 21% of what they were in 2008. This was attributed to the investments in the internet infrastructure in the country.

However, the study found that some respondents averaging 40% of the total respondents found the cost of acquiring the computer hardware and maintaining it relatively high. These could be the SMEs who do not access internet from their business premises or offices. EU (2007) recognized that SMEs adoption of an online tax system may be faced with financial challenges of adopting the new technology. Maumbe & Okello (2013) also noted that SMEs are more price sensitive towards IT investment than larger companies. For the SMEs, their limited funds limit their commitment towards the IT investment. Moreover, Maumbe & Okello noted that the SMEs often cite the high investment costs needed with the introduction of a new technology as a barrier to them adopting it. The high inhibitive costs acts as a deterrent towards the SMEs’ adoption of the online system. This finding is also in line with a study done by Nathan Associates Inc. (2013) that found
that when IT equipment costs are too high, coupled with high internet initial connection costs, the SMEs do not adopt the internet.

Additionally, the SMEs indicated that obtaining the necessary finances to equip the business with the necessary computer hardware to facilitate access to the iTax online system was a challenge. This is confirmed by the findings of the World Bank (2015) report on SMEs financing. In the report, it was observed that SMEs are less likely to secure a bank loan compared to a large firm. In addition, it was estimated that approximately 70% of MSMEs in emerging markets lacked access to formal credit. Moreover, a study done by Stein, Ardic, & Hommes (2013) found that SMEs experience financing constraints and the challenge is more pronounced in less developed countries. Stein et. al. estimated that one-half to two-thirds of MSMEs do not have proper access to credit they need for their businesses. They noted that these firms, though small and often less productive as compared to formal enterprises, contribute significantly to a country’s economy and employment. They therefore recommended that policy intervention was needed to close this financing gap. This could be done through regulatory reforms, improved financial infrastructure and increased competition in the financial sector in order to develop better banking services and enhance accessibility of capital for the SMEs.

5.3.3 Influence of SMEs’ technical skills and knowledge of use of the iTax online system on its adoption

The study found that that the level of computer skills among the SMEs was impressively good with an aggregate of 95% confident that they had good and very good computer skills. According to a study conducted by Alam (2009) on adoption of government initiated IT innovations, the findings showed that computer knowledge and literacy of the targeted users or individuals drives the adoption of an online application. The findings of this study therefore pointed to a positive impact on adoption of the iTax online system.

The study also sought to find out, other than computer literacy, whether the SMEs possess knowledge of the taxation system and tax laws that is necessary for them to be able to use the system and thereby affecting their adoption of the iTax online system. In general, tax compliance involves tax registration, filing of tax returns and payment of taxes due by the due dates, good bookkeeping and keeping abreast with any tax changes in laws and
procedures (EU, 2007). The findings showed that a significant number of the respondents understood the tax obligations of their businesses at 90%. In the same breadth, 77% could calculate taxes due to KRA. The study also established that the SMEs knew how to register their businesses on iTax, and use it to file tax returns and pay taxes as evidenced by a mean score value of 4.2 for each. Overall, the respondents had commendable technical tax skills and knowledge to utilise the online system which positively influences the adoption of the iTax online system. This finding is confirmed by the study on the models for adoption of e-tax returns that was done by Barati et.al. (2014) that found that, there is a significant relationship between taxpayers access to information to provide the know how, guidance and familiarity to adopt the system and the adoption of the e-tax system.

There however seems to be a challenge with regard to understanding the tax law changes and when these changes occur as only 29% of the respondents acknowledged knowing when tax changes occur. This finding concurs with the findings of a study done by the EU (2007) that noted that the frequent changes in tax laws is a challenge for SMEs, it takes time for the SMEs to adjust to the new changes and it also leads to a lot of uncertainty on tax treatment of transactions.

Another interesting finding was that the SMEs did not engage the services of tax consultants to advise them on tax matters as the results showed a paltry 34% had tax consultants. This could be attributed to the good tax knowledge the SMEs had as indicated in the findings. However, this could also explain the lack of knowledge of the tax law changes. The OECD (2015) noted that the frequency of changes in the tax laws and the resultant difficulty of interpreting the changes and implementing them necessitates outsourcing the service to tax experts. To respond to this challenge of the lack of knowledge of tax law changes, EU (2007) recommends that there should be timely communication of the tax law changes to help the SMEs adjust.

5.4 Conclusion

5.4.1 SMEs’ perception towards the iTax online system

The study concludes based on the findings that the SMEs have perceived usefulness, perceived credibility and perceived ease of use of the iTax online system. These three elements of the extended TAM theory have a strong influence on the SMEs’ intention to
adopt the iTax online system. In this case, the SMEs’ perceptions positively influences their adoption of the iTax online system. The study further concludes that the SMEs’ perceptions have in turn motivated them to voluntarily comply with their tax obligations.

5.4.2 Access to internet

Based on the findings from the study, it is evident that significant gains have been made in the Kenya’s broadband market with regard to internet penetration and monthly internet affordability. This has been largely driven by the entry of many ISPs in Kenya. The competition by the various providers has in turn resulted in lower monthly internet costs. This positively influences the adoption of the iTax online system. However, some SMEs find the costs of purchasing the computer hardware, maintenance costs and initial internet set up costs high. Moreover, it is difficult for SMEs to access the necessary finance to equip the business with the necessary IT infrastructure. These high inhibitive costs and difficulties in accessing finances negatively impact the adoption of the iTax online system.

5.4.3 SMEs’ technical knowledge and skills of using the iTax online system

The study concludes that the SMEs possess the required knowledge and skills of using the iTax online system. In particular, their level of computer skills is good and this positively drives the adoption of the iTax online system. Moreover, other than computer literacy, the SMEs have commendable knowledge of the taxation system and tax laws which is necessary for them to be able to use the iTax online system. This finding positively influences the adoption of the iTax online system. The study further concludes that the SMEs are experiencing challenges with regard to understanding the frequent tax law changes. In that case they are not able to keep up to date with the necessary changes resulting from these tax changes. While this finding doesn’t necessarily translate to lower adoption levels of the iTax system, it is an issue that requires policy intervention by the KRA.
5.5 Recommendations

5.5.1 Recommendations for Improvement

5.5.1.1 SMEs’ perception towards iTax online system

The study recommends that though there is a positive perception by the SMEs of the iTax online system, more awareness, publicity and training needs to be done to bring more SMEs onboard. When the SMEs are sensitized on the advantages of using the iTax system as opposed to the manual system, this will encourage adoption. As a result, more taxpayers will be looped into the iTax online system and tax compliance enhanced.

5.5.1.2 Access to internet

While significant gains have been made in the Kenya’s broadband market with regard to internet penetration and infrastructure, the financing challenge experienced by SMEs needs to be addressed. This can be done by disbursing affordable and accessible loans to the SMEs who need it to equip the businesses with the necessary IT infrastructure. The financing can be provided by the financial institutions or the government. This will ensure that these businesses are able to adopt the internet and adopt the iTax online system too. In the long run, higher tax compliance levels will be achieved thus ensuring higher revenue inflows for the government.

5.5.1.3 SMEs’ technical skills and knowledge of using the iTax online system

Overall, the SMEs should be equipped through continuous IT and tax trainings and seminars. This will sharpen their IT skills and enhance their tax knowledge in a bid to enhance increased adoption of the iTax online system. These initiatives should be spearheaded by the KRA and should be done periodically to ensure the SMEs are fully aware of their tax obligations and know how to use the iTax online system. Additionally, online support while using the system should be provided.
5.5.2 Suggestions for Future Studies

This study focused on factors influencing the adoption of the iTax online system by the SMEs and a sample drawn from the target population in Westlands Nairobi County. Further research should be done on SMEs in a different location including other counties other than Nairobi. Further studies can also be done on the impact of the adoption of the iTax online system on the revenue collected by Kenya Revenue Authority.
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Appendix I: COVER LETTER

Alice W Murigu
United States International University-Africa (USIU-A)
P.O Box 14634, 00800
Nairobi

Dear Respondent

I am carrying out research on; FACTORS INFLUENCING THE ADOPTION OF iTAX ONLINE SYSTEM AMONG SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs) IN WESTLANDS, NAIROBI COUNTY. This is in partial fulfilment of the requirement of the Masters of Business Administration (MBA) degree program at the United States International University-Africa.

The result of this study will provide the government and tax administration the necessary information which will be used to reform the iTax online system and tackle any administrative challenges faced by yourselves in an effort to improve service delivery.

This is an academic research and you are encouraged to provide your honest opinion. The information you provide will remain confidential and results will be analyzed and reported collectively, as such no findings will be directly attributed to an individual.

The questionnaire will take you approximately 10 minutes to complete.

Thank you in advance,

Yours sincerely,

A.W. Murigu
SECTION A. BACKGROUND INFORMATION.

1. What is your gender?
   Male □ □ Female □ □

2. What is your level of education?
   None □ □ Technical / Vocational □ □
   Primary □ □ Undergraduate □ □
   Secondary □ □ Postgraduate □ □

3. What is your main business activity?
   ICT Service □ □
   General trading e.g. hardware □ □ Manufacturing □ □
   Hospitality □ □ Other (please specify) ……………

4. How many employees do you have in your business? Please tick one:
   1-20 □ □ 21-40 □ □ 41-60 □ □ 61-80 □ □ 81-100 □ □

5. On average, what is your business’ monthly sales?
   Between Ksh 42,000 and Ksh 416,000 □ □
   Between Ksh 417,000 million and Ksh 67 million □ □

6. How did you register for the company’s PIN?
   Online □ □
   Manually, at a K.R.A office □ □
SECTION B. FACTORS INFLUENCING ADOPTION OF THE iTAX ONLINE SYSTEM

A. Perception Towards iTax online system

1. Please rate the following statements on a scale of 1-5 where 1= Strongly Agree and 5 = Strongly Disagree

<table>
<thead>
<tr>
<th></th>
<th>1: Strongly Agree</th>
<th>2: Agree</th>
<th>3: Not Sure</th>
<th>4: Disagree</th>
<th>5: Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>I believe the introduction of iTax online system is a beneficial idea.</td>
<td></td>
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<tr>
<td>2</td>
<td>The introduction of iTax online system has motivated me to voluntarily comply with my tax obligations.</td>
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<td></td>
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<tr>
<td>3</td>
<td>I prefer the online services in comparison to the manual system of tax registration and submission of tax returns.</td>
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<tr>
<td>4</td>
<td>The idea of submitting my tax returns online makes me uncomfortable.</td>
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<tr>
<td>5</td>
<td>I feel I will no longer have privacy in my business when I use the iTax online system.</td>
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<tr>
<td>6</td>
<td>I feel that the online system will not ease the work of preparation of tax returns and payments.</td>
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<tr>
<td>7</td>
<td>The Kenya Revenue Authority has not put in place enough measures to ensure that taxpayers know how to use the iTax online system.</td>
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<tr>
<td>8</td>
<td>My business peers’ adoption of iTax online system has motivated me to adopt the system.</td>
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<td></td>
<td></td>
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<tr>
<td>9</td>
<td>My knowledge of computer usage has motivated me to adopt the iTax online system.</td>
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<td></td>
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</tr>
</tbody>
</table>
B. Access to Internet

1. How often do you access internet? Please tick one:

Daily [ ] Weekly [ ] Monthly [ ] Once an year [ ] Never [ ]

2. How do you access internet for use in your business? (Tick what applies to you)

I have a computer and internet connectivity at my business premises/at work. [ ]
I have a computer and internet connectivity at home. [ ]
I have to go to a cyber café. [ ]
I use my mobile phone. [ ]
I don’t need access to internet. [ ]

3. Please rate the following statements on a scale of 1-5 where 1= Strongly Agree and 5 = Strongly Disagree

<table>
<thead>
<tr>
<th></th>
<th>1 Strongly Agree</th>
<th>2 Agree</th>
<th>3 Not Sure</th>
<th>4 Disagree</th>
<th>5 Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>I find the monthly cost of internet access affordable.</td>
<td></td>
<td></td>
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<tr>
<td>2</td>
<td>I find the cost of purchasing a computer too high for my business</td>
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<tr>
<td>3</td>
<td>I find the cost of maintaining a computer for accessing internet to file tax returns too expensive</td>
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<tr>
<td>4</td>
<td>Accessing finance from financial institutions to equip my business with internet is expensive for my business.</td>
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</tbody>
</table>
C. Technical Skills and Knowledge of using the iTax online system

1. How would you rate your computer skills?
   a. Very Good  
   b. Good  
   c. Fairly Good
   d. Poor  
   e. Extremely poor

2. When did you file your last income tax returns?
   2011  
   2012  
   2013  
   2014  
   I have not filed in the last 5 years

3. Currently, who is responsible for filing tax returns for your business?
   - Myself
   - Tax Consultant
   - Accountant
   - Office Assistant/Friend/Relative
   - Outsourced Accounting firm

4. Please rate the following statements on a scale of 1-5 where 1= Strongly Agree and 5 = Strongly Disagree

<table>
<thead>
<tr>
<th>Statement</th>
<th>1 Strongly Agree</th>
<th>2 Agree</th>
<th>3 Not Sure</th>
<th>4 Disagree</th>
<th>5 Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) I understand the tax obligations of my business.</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>b) I can correctly calculate the taxes I should pay to KRA.</td>
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<td>c) I know how to register my business on the iTax online system.</td>
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<tr>
<td>d) I can pay taxes using the iTax online platform.</td>
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<tr>
<td>e) I know how to file returns in the iTax online system.</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>f) I can view my tax records on the iTax online system.</td>
<td></td>
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<tr>
<td>g) I know the penalties for failure to file tax returns on the iTax online system.</td>
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<tr>
<td>h) I do not know when tax laws change.</td>
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<tr>
<td>i) I employ the services of a tax consultant to advise me on tax matters.</td>
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<tr>
<td>j) The current tax laws impose a penalty of Kshs 100,000 for failure to pay tax and file tax returns electronically through the iTax online system.</td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

Thank you.