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EFFECT OF ONLINE TAXPAYER REGISTRATION ON TAX COMPLIANCE OF SMALL AND MEDIUM ENTERPRISES IN ELDORET TOWN, KENYA

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ABSTRACT

Tax authorities are turning to e-government led solutions like integrated tax administration systems to interact with taxpaying public in tax collection, administration and compliance settings. It is on the basis of this purview that this research is born. Its main objective was to determine the effect of online tax registration on tax compliance. The specific objective is, to establish the effect of online tax registration on tax compliance of Small and Medium Enterprises in Eldoret, Kenya. The development of literature was guided by the technology acceptance model (TAM) theory. An explanatory research design was adopted and the target population was 2670 Small and Medium Enterprise taxpayers in Eldoret Town, North Rift Region. The sample size was 347 Small and Medium Enterprise tax payers. Stratified and simple random sampling technique was used to identify the respondents. Construct validity was tested using factor analysis and reliability using cronbachs' alpha technique. The data was analyzed using SPSS version 20 software using descriptive statistics and inferential statistics. The results were, online tax registration ($\beta = .333, p = .041, < .05$). The study concluded that online tax registration has a significant effect on tax compliance. The study recommends that small and medium enterprises should keep detailed records of all input tax and output tax to facilitate the completion of VAT returns.

Key words: Online Tax Registration, iTax system, Tax Compliance, SMEs

1. INTRODUCTION

Tax compliance is a concept given priority by all jurisdictions for purposes of raising enough revenue to meet the financial requirements of any Country. iTax system was introduced to ease tax compliance procedures (Ramayah, 2013). It is also a concept born to address the many challenges taxpayers face while in the process of honouring their tax obligations. iTax is an online platform whereby the taxpayer is able to access through internet all the services offered by a financial authority such as the registration for a personal identification number, filing of returns and application for compliance certificate (Wasao, 2014). Different jurisdictions are under an increasing pressure to improve revenue collection to desired levels.

Amitabh (2008) argues that in order to address the challenge faced in improving revenue collection, tax authorities around the globe have opted for iTax system to interact with taxpaying public in tax collection, administration and compliance settings. According to Dowe (2008) the use of technology to improve the effectiveness of tax administration, expand taxpayer services, and enhance tax compliance has come to attract increasing attention in developed and developing countries. Muita (2011) found out that the use of iTax system was first tested in the United States, where the Internal Revenue Service began offering tax return e-filing for tax refunds only which has now grown to the level that currently approximately one out of every five individual taxpayers is now filing returns electronically.

Mandola (2013) postulated that the advancement in information and communication technology that the world continues to experience makes tax collection and administration a challenge for many tax revenue authorities. The researcher argued that tax authorities have to maintain a modernized and responsive tax administration system so as to facilitate faster collection of taxes. An iTax system integrates the processes of registration, tax preparation, tax filing and tax payment. Thus taxpayers are able to avoid the hassles of visiting the tax office and making long queues, because the returns are filed at their convenience. An iTax system enables taxpayers to submit their tax returns electronically to the tax authorities thus helping to prevent many mistakes which might occur by taxpayers filing manual (Ramayah, 2013).

An Online tax system speeds up tax assessment and service delivery in the Philippines as the waiting period for a taxpayer for information on his individual account was reduced from about four hours to only three minutes. It also makes a country's tax administration more effective, leading to significant increases of tax revenue collection as noted in the Philippines that there was an increase in real property tax of more than 80% after the introduction of iTax system in the province (Lucante et al., 2011). In 2015 Zimbabwe Revenue Authority introduced electronic tax administration system and despite the prevailing economic challenges, in the following financial year, Zimbabwe Revenue Authority experienced an increased tax base, compliance rate and serious enforcement by the revenue officers (Bonyongwe, 2016). In Tanzania there was increased collection of taxes from US\$25 per month in 2006 to US\$300 per month in 2017 (Lucante et al., 2011).

iTax system forms part of the revenue collection reforms by Kenya Revenue Authority whose main motive is enhancing tax collections and tax efficiency (Atika, 2012). The main object of the introduction of iTax system is to spearhead tax compliance. Tax compliance is the full payment of all taxes due (Braithwaite, 2009). Noncompliance tax is always a major concern in all tax administration and if non compliance is accumulated, it will result into a serious problem to the state revenue (Faa, 2008). According to the KRA Sixth Corporate Plan, Kenya Revenue Authority has a centralized Information Communication Technology department that provides support services in terms of electronic systems to the entire organization all these to try and achieve its goals for achieving increased revenue collection and facilitating voluntary compliance by tax payers.

Despite all these efforts, a few challenges still exist even though there is increased revenue collection in the country. According to the KRA Sixth Corporate plan, the revenue collections have increased from 1 trillion in 2013/2014 when the iTax system was launched to 1.21 trillion in financial year 2015/2016. However, Wasao (2014) argues that economic and finance experts claim that the increase may not be necessarily because of the introduction of the iTax system but other factors. Kenya is ranked among low compliance countries with the hard task of ensuring efficient and effective tax administration in order to ensure tax compliance, hence raising more revenue (IMF, 2015). This research was therefore motivated by the above background to conduct a study on the effect of the online tax registration on tax compliance of Small and Medium Enterprises in Eldoret, Kenya.

1.2 Statement of the Problem

Despite the increasing need to increase revenue collection and enforcement so as to provide public services, developing countries still face the challenges of low tax compliance and tax administration (ACCA, 2012). Tax compliance rates among Micro, Small and Medium sized establishment in Kenya are low and yet iTax system was initiated to avert the pitfalls of manual filing of returns (Muita, 2011). According to an economic survey by Ibrahim in 2017 on Micro, Small and Medium sized establishment in Kenya revealed that there are approximately more than 7.4 million such establishments. The economic survey further revealed that majority of the establishments are non tax compliant (Ibrahim, 2017). On the other hand, few studies exist on tax compliance among Small and Medium Enterprises, more so the effect of compliance costs on their tax compliance levels. For example, Wasao (2014) did a study on the effect of online tax system on tax compliance among small tax payers in East of Nairobi Tax, found out that online system does affect tax compliance level among small taxpayers in East of Nairobi as far as registration, filing and payments were concerned. The researcher recommended a further study to be carried out on tax compliance among value added tax payers in other towns besides Nairobi. The current study therefore, sought to fill this gap in knowledge by investigating the effect of online tax registration on tax compliance among small taxpayers at Eldoret with more emphasis on Value Added taxpayers.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 The Technology Acceptance Model (TAM) Theory

The theory was developed by Davis and Venkatesh in 1989 and their argument was that "when users are presented with a new technology; its perceived usefulness (PU) and Perceived ease-of-use (PEOU) will influence their decisions on how and when they will use it." PU refers to the degree to which a person believes that using a particular system would enhance his or her job performance while PEOU is the degree to which a person perceives a particular system would be free from effort. Therefore, user acceptance has been viewed as the pivotal factor in determining the success or failure of any information system project (Mogeni, 2012). This theory postulates that because new technologies such as personal computers are complex and an element of uncertainty exists in the minds of decision makers with respect to the successful adoption of them, people form attitudes and intentions toward trying to learn to use the new technology prior to initiating efforts directed at using them (Bagozzi, 2007).

According to Bagozzi (2007) attitudes towards usage and intentions to use may be ill-formed or lacking in conviction or else may occur only after preliminary strivings to learn to use the technology evolve. Thus, actual usage may not be a direct or immediate consequence of such attitudes and intentions. Brychan (2010) found out that Tornatzky and Klein developed the diffusion of innovation theory which relates to the perceived ease of use. They analyzed the adoption, finding that compatibility, relative advantage and complexity had the most significant relationships with adoption across a broad range of innovation types. Benbasat and Barki (2007) suggested that TAM "has diverted researchers' attention away from other important research issues and has created an illusion of progress in knowledge accumulation.

Furthermore, the independent attempts by several researchers to expand TAM in order to adapt it to the constantly changing IT environments have led to a state of theoretical chaos and confusion.

2.2 Tax Compliance

Tax compliance is the ability to pay taxes on time and timely reporting of the correct tax information (Ssetuba, 2012). It is the supply of accurate and timely lodgment of income tax return together with the required payments whenever due (Auyat, 2013). There are two types of tax compliance; voluntary and involuntary tax compliance (Mandola, 2013). The voluntary tax compliance requires no state enforcement for the taxpayers to comply with the tax requirements in contrast to the involuntary tax compliance (Hussein, 2010). Tax compliance is concerned on the timely and accurate submission of tax remittance information to the revenue authority. The online filing system has a direct impact on the tax compliance levels (Nakiwala, 2010). The online filing of the tax returns ensures that there is lack of inconsistencies, missing information and unintentional errors (Mandola, 2013). The online system ensures that the taxpayer has filled all the required mandatory fields before allowing him to proceed to the next level. This has the effect of ensuring that the revenue authority receives relatively high quality data compared to the manual returns of the data (Nakiwala, 2010).

Insurance Companies are faced with numerous challenges in the context of taxation. Odongo (2014) found tax compliance levels among the SMEs in Uganda to be very low. There are several factors that led to low tax compliance levels in Uganda including poor book keeping, low sales turn over, and frequent ownership changes of SMEs (Nakiwala, 2010). Other challenges include large proportion of SMEs who are ignorant of taxation processes and computations, and lack of comprehensive sensitization programs by the Uganda Revenue Authority (URA) (Odongo, 2014). There are challenges associated with the tax compliance levels among the SMEs in Kenya due to the nature of the firms (Simiyu, 2013). The turnover tax in Kenya introduced through the Finance Act of 2007 specifically targets the SMEs especially those with less than 5 million annual gross incomes (Osebe, 2013). Some of the challenges facing the taxation of the SMEs in Kenya include the fact that small businesses are normally owned by the owners who are also in charge of the accounting book (Muhangi, 2012). There is thus less incentive to comply with tax requirements.

2.3 Online Taxpayer Registration on Tax Compliance

Moyi and Ronge (2010) posits that online tax registration allows tax authorities to provide taxpayers with a uniform Tax Identification Number which will apply regardless of whether a tax payer is registering for Personal Tax, Corporate Tax or Value Added Tax. Simplify the tax code: Since income tax and value added tax rates are punitive and lack in-built mechanisms that would enhance self-assessment, there is need to simplify tax laws, forms and procedures developing systems that can enhance access to third-party sources of information. Kariuki (2013) notes that an electronic tax system enhances performance in revenue administration by providing electronic registration module, where taxpayers are able register to obtain taxpayer identification number online. Moyi and Ronge (2010) found out that KRA still lacks adequate and frequently updated information systems on registered taxpayers and computerization of taxpayer records is still incomplete. They proposed that there is need to develop systems that can access third party sources of information, such as withholdings, bank transactions, foreign exchange transactions, transactions in securities and large transactions (involving real estate, cars, tax-deductible transactions, customs payments).

Musgrave (2013) notes that a registration module should be used to register companies and individuals based on unique identification numbers in developing countries. The registration module must be the first module in operation and taxpayer registration is the first process that should become operational. As explained, the gathering of data should be limited as much as possible and the update and verification of information must be possible from any module in the system. Multiple registrations are caused by negligence or by intent (Kariuki, 2013). In Tanzania, only 2% were registered as taxpayers under a taxpayer identification number in 2005. However, the number of actual and active income taxpayers is estimated at little over 300,000 in 2008 after the launch of online tax registration (Lucante et al., 2012).

According to KRA (2015) the iTax system started on a good note in as far as increasing tax compliance is concerned. There were 1.6 million users of the system with 200,000 signing up in May 2015. Online tax registration provides a firm foundation to probe non-compliant taxpayers through audit and exact penalties. However, as various empirical studies show, higher audit probabilities and fines do not unambiguously raise tax compliance (Kirchler, 2008). In fact, they sometimes undermine it. In 2007, the United States Internal Revenue Service (IRS) introduced additional penalties for US citizens submitting incomplete tax returns ostensibly because the number of wrongful returns had been very high in the previous year (Seelkopf, Genschel & Brockmann, 2015). While

understandable, the approach was unsuccessful. Allegedly, it resulted in a 22 % increase in tax fraud the following year (Brockmann et al., 2015).

Musgrave (2013) revealed that some taxes are related to thresholds or tax brackets, creating an incentive to minimize taxes by splitting some big businesses into several smaller units. Many tax authorities request that for motor vehicle registration the holder is registered under a PIN. This increases the number of registered persons tremendously and endangers the data quality, because the person concerned might register only with the intent of completing the motor vehicle registration and might register for another business separately with different data. Mutua (2012) noted that negligence on taxpayer registration will create a lot of obstacles for accurate, usable data. The composition of names, consisting of first, middle and last name causes erroneous entries; missing birth dates make it difficult to differentiate between taxpayers with the same name. The goal of iTax system is the registration of all taxpayers in the national database and the issuing of a national PIN for everybody. In 2013 the Kenya Revenue Authority did a study to continue on the path towards financial administration excellence through surpassing set financial targets at least cost (KRA, 2013).

According to Waweru (2013) online tax registration enables taxpayer internet based PIN registration, returns filing and payment registration to allow for tax payments and status inquiries with real-time monitoring of accounts. Kun (2008) notes that for a long time, government services have been regarded as synonymous with bureaucracy in both developing and industrialized countries. ICT use has led to high level organizational growth (Suluo, 2013). In Tanzania for example, according to the TRA (2010), after the introduction of electronic tax systems with the most central being the Integrated Tax Administration System (ITAX) and Taxpayer Identification System (TIN), there are no more rooms full of clerks posting entries by hand in large ledger books as it used to be; instead there is a widespread use of computers to administer tax. Literature reviewed led to the development of the following hypothesis statement: **H₀I**: *Online tax registration has no significant effect on tax compliance of Small and Medium Enterprises in Eldoret, Kenya.*

3. MATERIALS AND METHODS

An explanatory research design was adopted for this study as it allows for explanations of the nature of relationship to be sought between online taxpayer registration and tax compliance. The study population comprised of 2670 Small Taxpayers registered under Value Added Tax (VAT) in Eldoret Town domestic tax department (KRA, 2018). Of the 2670 SMEs, 837 were retail traders, 144, wholesale traders, 1555 service sector and 134 production or manufacturing industry. The sample size was 347 SMEs obtained using the Yamane's (1967) formula for finite population. Of the 347 SMEs, 109 were retail traders, 19 wholesalers, 202 service industries and 17 production or manufacturing industry. Simple random sampling was used to get samples of SMEs from the different strata. The actual enterprises for data collection was arrived at by using stratified random sampling from each stratum. The stratification was based on retail trade, wholesale trade, service and the manufacturing industries. The choice of these sectors was due to the following observations made by (R.O.K., 2009).

Primary data was the main source of data and it was collected using structured questionnaires. This study adopted content validity. It addresses how well the items developed to operationalize a construct provide an adequate and representative sample of all the items that might measure the construct of interest was assessed based on the judgment of experts in the field (Mbwesa, 2006) it, in this case my supervisors. Reliability is concerned with the extent to which a research instrument yields the same results (Mugenda & Mugenda, 2003). Internal consistency reliability was adopted since it is the most commonly used measure of reliability in applied settings. It also requires only one sample of data to estimate the internal consistency reliability (Kothari, 2004). It was measured using the cronbach's alpha, Sreevidya and Sunitha (2011) recommends that a Cronbach' alpha co-efficient of above or equal to 0.70 is sufficient for most cases to test reliability.

This study used both descriptive and inferential statistics. Descriptive statistical metrics adopted in this study were frequencies, percentages, means and standard deviations. Inferential statistical metrics were both Pearson correlation and regression. The Social Package for Statistical science (SPSS) software version (20) aided in data analysis. Pearson product moment correlation was used to assess whether there is a significant association between tax compliance as proxied by filing of returns, timely and accurate payment of taxes and declaration of correct returns and online tax registration. Simple linear Regression model was used to identify significant predictors of tax compliance indicators. $P < 0.05$ was considered significant. The P values in the regression coefficient table were used to either accept or reject the null hypothesis; if it is more than 5% level of significance then the hypothesis was rejected, but if it is less than 5% level of significance the hypothesis was accepted.

The regression model was as follows: $y = \alpha + \beta_1 X_1 + e$ Where: y = Tax Compliance; α = The value of Y when X is equal to zero. This is also called the "Y Intercept"; β = The change in Y for each 1 increment change in X. (X_1) = an X score on independent variable for which the study is trying to predict a value of Y; e = Residual or error terms (represent by e); X_1 = Online tax registration; e = error term; α = intercept; β_1 = coefficient of x_1 . All ethical issues of research were upheld. The respondents were informed the purpose of the study and their consent sought prior to their participation. Adequate measures were taken to protect the confidentiality of respondents. The identities of the respondents was protected by using numbers. In addition, the researcher sought authorization letter from

University of Eldoret to collect data for analysis. Further, research permit was sought from the National Commission for Science, Technology & Innovation. Upon receipt of the research permit from NACOSTI the researcher proceeded with the data collection exercise. Ethics were upheld in the design and analysis of the data.

4. RESULTS & DISCUSSIONS

The demographic information of the respondents is as presented in Table 1. The demographic information focused mainly on the respondents' gender, age, highest level of education, period the business has been in existence and the sector the business belongs to. From the findings, 8.8% (26) of the respondents were aged below 25 years, 25.5% (75) of them between 26 to 30 years, 27.6% (81) between 31 to 35, 18.0% (53) of them between 36 to 40 years, 12.6% (37) between 41 to 45, 5.1% (15) between 46 to 50 while 2.4% (7) of the respondents were above 51 years. In relation to age, 153 (52.0%) of the respondents were male while 141(48.0%) of them are female. From the study findings, male individuals comprise the majority.

Table 1: Demographic information

		Frequency	Percent
Age	< 25	26	8.8
	26 – 30	75	25.5
	31 – 35	81	27.6
	36 – 40	53	18.0
	41- 45	37	12.6
	46 – 50	15	5.1
	> 50	7	2.4
	Total	294	100.0
Gender	Male	141	48.0
	Female	153	52.0
	Total	294	100.0
Highest education	Primary	18	6.1
	Secondary	84	28.6
	Diploma	47	16.0
	Bachelor	112	38.1
	Masters	26	8.8
	PhD	7	2.4
Total	294	100.0	
Period the business has been in existence	< 1	87	29.6
	1-5	93	31.6
	6 – 10	75	25.5
	11 – 15	29	9.9
	16 – 20	6	2.0
	> 21	4	1.4
Total	294	100.0	
Sector the business belongs to	wholesale and retail trade	95	32.3
	service related	83	28.2
	Hardware	51	17.3
	other type of business	65	22.1
	Total	294	100.0

Source: Survey data, 2019

In a bid to establish the highest level of education, 18 (6.1%) of the respondents had primary education, 84 (28.6%) had secondary, 47 (16.0%) had diploma, 112 (38.1%) had a bachelors' degree while 7(2.4%) of them were PhD holders. In regards to the period the business has been in existence, 87 (29.6%) of the businesses had been in existence for less than one year, 93 (31.6%) between one to five years, 75 (25.5%) between six to ten years, 29 (9.9%) between eleven to 15 years, 6 (2.0%) between 16 to 20 years while 4 (1.4%) of the business had been in existence for over 21 years. This implies that majority of the small and medium enterprises had been in existence for a period of one to five years. In regards to the sector the business belongs to, 95 (32.3%) of the small and medium enterprises belong to the wholesale and retail trade, 83 (28.2%) service related, 51(17.3%) had a hardware while 65 (22.1%) of them had othr type of business such as consultancy firms.

4.1: Descriptive Analysis for the Study Variables

This section presents the descriptive analysis of the study variables. Measures such as mean and standard deviations are used to explain the data.

4.1.1 tax compliance

This study sought to assess the tax compliance among the small and medium enterprises as a result of the introduction of the iTax system in Kenya. In regards to filing of tax returns, 43 (14.6%) of the respondents acknowledged to a very low extent, 42(14.3%) of them to a low extent, 24.1% (71) were undecided, 103 (35.0%) great extent and 35 (11.9%) of them noted to a very great extent. The item realized a mean of 3.1531 implying that majority of the small and medium enterprises files their tax return which has influenced positively tax compliance with a variation in responses of 1.23944. Also, 17 (5.8%) acknowledged that declaration of correct returns had affected tax compliance to a very low extent, 60 (20.4%) of them opined to a low extent, 70 (23.8%) were undecided, 89 (30.3%) noted to a great extent while 58 (19.7%) revealed to a very great extent. The mean value was 3.3776 and the standard deviation was 1.17872 as shown in Table 2:

Table 2: Tax Compliance

		VLE	LE	N	GE	VGE	Mean	Std. Deviation
The smes' files their tax returns	F	43	42	71	103	35	3.1531	1.23944
	%	14.6	14.3	24.1	35.0	11.9		
Declaration of correct returns	F	17	60	70	89	58	3.3776	1.17872
	%	5.8	20.4	23.8	30.3	19.7		
Timely and accurate payment of taxes	F	23	35	72	99	65	3.5034	1.18508
	%	7.8	11.9	24.5	33.7	22.1		
Quality data on tax returns	F	27	28	71	102	66	3.5170	1.20212
	%	9.2	9.5	24.1	34.7	22.4		
Correct self assessment of taxes owed.	F	23	25	66	104	76	3.6293	1.18089
	%	7.8	8.5	22.4	35.4	25.9		
Composite Values							3.4361	1.19725

Source: Survey data, 2019

In relation to timely and accurate payments of taxes, 23 (7.8%) revealed to a very low extent, 35 (11.9%) to a low extent, 72 (24.5%) were undecided, 99 (33.7%) acknowledged to a great extent while 65 (22.1%) of them confirmed to a very great extent. The item realized a mean of 3.5034 and a standard deviation of 1.18505 implying that timely and accurate payment of taxes has improved tax compliance to a great extent. 27(9.2%) noted that quality data on tax returns has influenced tax compliance to a very low extent, 28 (9.5%) to a low extent, 71 (24.1%) of the respondents were undecided, 102 (34.7%) of them to a great extent while 66 (22.4%) to a very great extent. The mean was 3.5170 and the standard deviation was 1.20212. In regards to correct self assessment of taxes owed, 23 (7.8%) of the respondents revealed to a very low extent, 25 (8.5%) acknowledged to a low extent, 66 (22.4%) were undecided, 104 (35.4%) noted that it had improved to a great extent while 76 (25.9%) of them revealed to a very great extent. The item realized a mean of 3.4361 and a standard deviation of 1.19725. The items of tax compliance in general realized a mean of 3.4361 implying that iTax system has influenced tax compliance of small and medium enterprises to a great extent.

4.1.2 Online Tax Registration and Tax Compliance

The study sought to determine the extent to which online tax registration affects tax compliance. In relation to simple access for tax registration, 64 (21.8%) of the respondents confirmed very low extent, 31 (10.5%) low extent, 68 (23.1%) were undecided, 71 (24.1%) great extent and 60 (20.4%) very great extent. The mean and the standard deviation 3.1088 and 1.42445 respectively. Additionally, 25 (8.5%) of the respondents noted that online tax registration offers a secure module and it affects tax compliance to a very low extent, 44(15.0%) to a low extent, 65 (22.1%) were undecided, 81 (27.6%) great extent and 79(26.9%) to a very great extent. The mean and the standard deviation was 3.4932 and 1.26584 respectively.

Furthermore, 8.2% (24) of the respondents acknowledged that iTax system offers a reliable and user friendly mode to a very low extent, 40 (13.6%) to a low extent, 68 (23.1%) were undecided, 105 (35.7%) to a great extent and 57 (19.4%) to a very great extent. The item realized a mean of 3.4456 implying that a reliable and user friendly module influences tax compliance. Also, 13(4.4%) of the respondents noted that iTax system provides a uniform tax identification number which affects tax compliance to a very low extent, 45 (15.3%) to a low extent, 72 (24.5%) were undecided, 107 (36.4%) great extent and 57(19.4%) to a very great extent. The mean was 3.5102 and the standard deviation was 1.1014.

Table 3: Online Tax Registration

		VLE	LE	N	GE	VGE	Mean	Std. Deviation
Simple access for tax registration	F	64	31	68	71	60	3.1088	1.42445
	%	21.8	10.5	23.1	24.1	20.4		
Online tax registration offers a secure module	F	25	44	65	81	79	3.4932	1.26584
	%	8.5	15.0	22.1	27.6	26.9		
iTax system offers a reliable and user friendly module	F	24	40	68	105	57	3.4456	1.18383
	%	8.2	13.6	23.1	35.7	19.4		
The iTax system provides a uniform tax identification number	F	13	45	72	107	57	3.5102	1.10146
	%	4.4	15.3	24.5	36.4	19.4		
Enhancement of self identification assessment	F	15	27	72	117	63	3.6327	1.07457
	%	5.1	9.2	24.5	39.8	21.4		
iTax system simplifies the tax identification code	F	9	32	71	100	82	3.7279	1.07759
	%	3.1	10.9	24.1	34.0	27.9		
The business adoption of e registration module	F	13	12	50	105	114	4.0034	1.05965
	%	4.4	4.1	17.0	35.7	38.8		
Composite							3.5603	1.16963

Source: Survey data, 2019

Besides, 15(5.1%) of the respondents postulated that enhancement of self identification assessment affects tax compliance to a very low extent, 27 (9.2%) low extent, 72 (24.5%) were undecided, 117 (39.8%) of them to a great extent and 63 (21.4%) to a very great extent. The item realized a mean of 3.6327 and a standard deviation of 1.07759. Furthermore, 9 (3.1%) of the respondents revealed that iTax system simplifies the tax identification code to a very low extent, 32 (10.9%) to a low extent, 71 (24.1%) un decided, 100 (34.0%) great extent and 82 (27.9%) to a very great extent. The item realized a mean of 3.7279 and a standard deviation of 1.07759. In a bid to establish whether the business adoption of e registration module affects tax compliance, 13 (4.4%) revealed to a very low extent, 12 (4.1%) to a low extent, 50 (17.0%) undecided, 105 (35.7%) to a great extent and 114 (38.8%) to a very great extent. The mean value was 4.0034 and the standard deviation was 1.05965. The mean of the composite online tax registration was 3.5603 implying that only tax registration affects tax compliance with a variance in responses of 1.16963. Correlation analysis of variable under study was undertaken to establish where there was any significant relation between dependent and independent variables under study. Correlation is a powerful tool to measure presence of a relationship between two or more variables. It tries to establish whether there is positive or negative relationship between variable and using statistical correlation coefficient determine the strength of this relationship. This was then tested for significance at 5%. The result of the analysis is tabulated in Table 4:

Table 4: Correlations between Tax Compliance and online Tax Registration

		Correlation = 294	
		Compliance	Tax registration
Compliance	Pearson Correlation	1	
	Sig. (2-tailed)		
Tax Registration	Pearson Correlation	.509*	1
	Sig. (2-tailed)	.000	

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

Source: Survey data, 2019

Tax compliance was found to have a fairly strong relationship with online tax registration among small and medium enterprises ($r = .509^*$, $p = 0.000$) at 95% confidence interval.

4.2 Regression Analysis

Simple linear regression analysis is a statistical metric used for predicting the unknown value of a variable from the known value of one variable (Saunders, Lewis & Thornhill, 2009). In this study, simple linear regression analysis helped predict tax compliance from online tax registration. The results from simple linear regression analysis are as displayed below: The regression model summary revealed that, the value of adjusted R-square is 0.329 which indicates that the model explains 32.9% of tax compliance from the predictor variable (i.e. online tax registration). The Durbin-Watson's d tests the null hypothesis that the residuals are not linearly auto-correlated. The value of Durbin-Watson was at 1.656 which indicates no autocorrelation among the variables as shown in Table 5:

Table 5: Model Summary

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.581 ^a	.338	.329	2.16243	1.656

a. Predictors: (Constant), online tax registration
 b. Dependent Variable: Compliance

Source: Survey data, 2019

Analysis of variance was employed to measure the differences in means between tax compliance and online tax registration. The results are shown in the Table 6:

Table 6: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	689.940	1	172.485	36.886	.000 ^a
	Residual	1351.393	289	4.676		
	Total	2041.333	293			

a. Predictors: (Constant), tax registration, compliance costs, Tax remittance, Tax filing
 b. Dependent Variable: Compliance

Source: Survey data, 2019

The F-ratio was 36.886 at 1 degree of freedom which is the variable factor. This represented the effect size of the regression model and the model is significant at 95% confidence level (p=0.000) indicating that tax compliance can be predicted from the aforementioned independent variable. Coefficient analysis from simple linear regression analysis revealed that beta coefficient are .059 implying that a unit change in online tax registration influenced .059 changes in tax compliance as shown in Table 7:

Table 7: Coefficient Analysis

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.829	.772			
	Tax registration	.333	.031	.059	1.053	.041

a. Dependent Variable: Compliance

Source: Survey data, 2019

As aforementioned, the model was found to be statistically significant. Further, the regression model can be outlined as follows;

$$\text{Tax Compliance} = (2.829) + X_1(.333) + .772$$

The study had proposed the null hypothesis that online tax registration has no significant effect on tax compliance (H01). The effect was found to be significant (p<0.05) as shown in Table 4.7. The hypothesis was therefore rejected implying that online tax registration has a significant effect on tax compliance of SMEs. The study findings are in agreement with the findings of Mutua (2012) who noted that negligence on taxpayer registration will create a lot of obstacles for accurate, usable data. The composition of names, consisting of first, middle and last name causes erroneous entries; missing birth dates make it difficult to differentiate between taxpayers with the same name. The study further agrees with Waweru (2013) that online tax registration enables taxpayer internet based PIN registration, returns filing and payment registration to allow for tax payments and status inquiries with real-time monitoring of accounts.

5. CONCLUSIONS & RECOMMENDATIONS

The study concludes that online tax registration has a significant effect on tax compliance of SMEs. Online tax registration provides a simple access for tax registration, it offers a secure module, it offers a reliable and user friendly module and it also provides a uniform tax identification number. It enhances self identification assessment and it simplifies the tax identification code and hence improves the tax compliance rates among SMEs. The e registration module has also increased the tax compliance rates among the SMEs. As much as online tax registration has increased the tax compliance rates among the SMEs, a lot still needs to be done to avert the non compliance rates still being experienced among some of the SMEs. On the basis of this argument, the current study recommends that small and medium enterprises should keep detailed records of all input tax and output tax to facilitate the completion of VAT returns. They should match returns against filing requirements to ensure accuracy in tax payments. Kenya revenue authority should ensure that the compliance costs are not high as it can result in tax avoidance, tax fraud and inhibit investment by way of diminishing

competitiveness of the country in terms of taxation attractiveness which will ultimately reduce tax compliance levels in given taxpayers. The study suggests that further research should be conducted on the effects of online tax registration on tax compliance of small and medium enterprises using other predictors of tax compliance such as online tax filing, tax remittance and compliance costs. This study focused on the effect of online tax registration on tax compliance of SMEs' in Eldoret Town. It can be replicated with a larger sample. It is also recommended that this study be replicated on SMEs' in other towns in Kenya besides Eldoret. Furthermore, it would be interesting to know whether the observed findings hold for SMEs' in other towns as well. Major contextual and settings to be considered in future researches should consider online tax registration as a prerequisite for improved tax compliance among SMEs.

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