EFFECTS OF ONLINE TAX FILING ON TAX COMPLIANCE AMONG SMALL AND MEDIUM ENTERPRISES IN KENYA: A CASE STUDY OF MACHAKOS COUNTY

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ABSTRACT

Tax collection is the key source of income that the administration of Kenya uses to give public services to its citizenry. Tax performance in Kenya has enhanced throughout the decade in nominal terms averaging around 24% of the measure of the economy. The introduction of online filing by Kenya Revenue Authority through the I-Tax system replaced the Integrated Tax Management Systems. The online filing of tax returns introduces benefits that were not possible through manual filing of the tax returns. This review researched the impacts of online tax filing on tax compliance among SMEs in Kenya, Machakos County. The review was guided by the accompanying goals; to research the impact of electronic filing system on taxpayer compliance among SMEs in Machakos County, to analyze the influence of electronic filing knowledge on taxpayer compliance among SMEs in Machakos County and to determine the challenges of using electronic filing system on tax compliance among SMEs in Machakos County. Tax compliance theories were used to support the study. These theories included: Economic based theory and Fiscal and social psychology theory. The research used a descriptive research design. The main data collection tools were questionnaires that were administered to the respondents. The study targeted a population of 150 out of 5,311 SMEs in Machakos County and a sample of 100 respondents was used. Data from the field was analyzed using SPSS that included use of descriptive and inferential statistics. The statistical regression analysis was applied to the questionnaire-generated primary data. The analysis was applied to test the effect of online tax filing systems on taxpayer compliance behaviour among the small and medium taxpayer category in Machakos County. The study indicated that online filing had a direct relationship with tax compliance. The study also confirmed that online system enhances compliance as far as filing of tax returns is concerned. The study established that majority of the respondents were aware of KRA online services though a good number had not registered as online taxpayers. From the study it is evident that the proficiency of internet usage as well as electronic filing affects tax compliance. The study revealed that lack of good internet connectivity made tax compliance a hectic exercise. It also revealed that staff illiteracy when it comes to internet usage and KRA electronic filing was a big challenge for most businesses. Conclusions of this study were that online system had significant influence on tax compliance. This is because it enhances compliance as far as filing of tax returns is concerned; that computer literacy levels have significant influence on tax compliance levels and that poor internet connectivity made tax compliance a hectic exercise. The following are the areas where the researcher recommends for improvement: KRA should strongly emphasize on e-filing and computer knowledge, KRA should improve accessibility, especially around due dates this is as a result of the findings obtained from the study where majority of respondents blamed frequent server downtime as the failure of online system especially around due dates, the County government of Machakos should improve the tax system in place for tax payment so as to enhance efficiency in tax collection and payment and lastly this study will be of help to future researchers who will use this study as a source of reference.