EFFECT OF TAXPAYER AWARENESS AND COMPLIANCE COSTS ON TAX COMPLIANCE AMONG SMALL SCALE TRADERS IN NAKURU TOWN, KENYA

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ABSTRACT

Small scale traders are fast growing sectors of the economy due to their simple nature of operations. The growth of this sector of the economy is due to the increase in unemployment rate as a result of increase in population. It is therefore important for the government to tap the revenue from this sector to contribute to the overall revenue of the country. Tax is a vital source of revenue for the government yet it has never been easy for the tax authorities to ensure that most taxpayers are complying with the set laws and regulations of taxation. The level of tax compliance has been a major issue of concern to every government and more so to tax authorities around the world due to the increase in the budgetary requirement of the country. The study was specifically done to investigate the effect of tax awareness and cost of compliance on tax compliance in the small scale traders within Nakuru town. The study was guided by the economic deterrent and psychological theories of tax compliance. The study used descriptive research design. A sample size of 302 was drawn from the target population of 1416 licensed small scale traders by the County government of Nakuru. Data was collected using structured questionnaire. The data was also coded, analysis was done quantitatively using both inferential and descriptive statistics. The data was then summarized in form of tables and charts. The findings revealed that tax awareness and education has a positive and significant effect on the tax compliance ($\beta 2 = 0.315$), and the cost of compliance has a significant effect on the level of tax compliance ($\beta 1 = 0.416$). The findings of this study will help in policy formulation and the Kenya Revenue Authority to come up with policy to foster compliance among the small traders and thereby translating to improved revenue collection. The study recommends enhanced training and sensitization to create awareness and reduce compliance cost and simplify online technology for the overall positive impact on compliance among the SMEs.

Key Words: *taxpayer awareness, compliance costs, tax compliance, small scale traders, Nakuru town, Kenya*

INTRODUCTION

Tax is an important source of revenue for the government and every administration; it helps the government to fulfill its financial obligations in addition to providing services to the general public. Tax systems have been evolving over a period of years, due to the need of governments to meet the demands of its citizen. The government of Kenya through its collection agency has a number of taxes that ought to be paid by its citizen namely; The Income Tax, Value added Tax (VAT), TOT and Presumptive tax for domestic revenue and customs duty for imports. This is to enable the government meet its budgetary requirements. Due to the high demand and dependence on domestic revenue by the government encompassed by the low levels of compliance among the traders and taxpayers at large, this study entailed to analyze different variables that contribute to compliance levels among the small scale traders as supported by the economic and

psychological theories of tax compliance. The Kenya Revenue Authority which is the body mandated to collect revenue on behalf of the government introduced presumptive tax to be able to net the small scale traders who are below the taxation threshold and are not registered for tax purposes as this was seen as a means of getting taxes from this volatile sector. According to EY Kenya tax guide 2019, the presumed tax was to replace the Turnover Tax and is payable at 15% of the amount paid for business permit with effect from January 2019. According to the National treasury reports,it has been noted that the authority has not been able to meet its set revenue targets for financial year 2016/17 and 2017/18 and this has prompted the the revenue body with extra duty of understanding of ways to meet the deficits and other ways of improving revenue that arise from taxation.

Tax Compliance

Tax compliance has various definitions. It can be described as a combination of a number of procedures not limited to payment filing and reporting. (Marti 2010) defines it as a fulfillment of obligations in relation to taxation voluntarily as required by the law. It is also determined by the power of authorities and taxpayers' trust in the authority (Kirchler 2014). In its article on tax compliance, Organization of Economic Cooperation and Development (2016), categorizes compliance in two namely; administrative compliance and technical compliance. Administrative rules imply filing and making payments and ensuring that the due dates are adhered to and the procedures also followed whereas the technical aspect refers to the computation of the correct taxes. In addition, it refers to voluntary computation, payment of the tax due and payable within the stipulated time lines. It is also determined by the taxpayers trust and facilitation by the authorities. (Marti 2010) Therefore there has to be a tax system which encompasses various aspects of the tax rules, regulations and procedures Slemrod and Gillitzer (2014). From the many researchers who have ventured into the area of taxation, the word tax compliance is the art of filing returns within the stipulated time and pay tax due as required by the relevant laws. It also means following the laws of the land in regards to taxation.

Tax non-compliance on the other hand, may involve and not limited to the following forms; it may arise due to failure to file tax returns within stipulated time frame or failure to declare the correct taxes. It is the illegal conduct by taxpayers done intentionally or unintentionally to evade taxes from tax authority (Bidin & Sinnasamy, 2017). This may also involve over-claiming of expenses to reduce tax liabilities. Tax noncompliance reduces the government revenue as noted by Otusanya (2011) as evidence in cases examined which implicated Multi-national companies by underreporting and their profits and manipulation of records.

While the core business of any revenue authority is to ensure that there is high compliance in as far as taxation is concerned and that translating to increased revenue collection, it is thus important that the policy guidelines are geared towards improvement in compliance. In its budget report the National Treasury insisted on putting measures in place geared towards the enhanced collection of more domestic revenue to meet its financial obligations. (Treasury report 2018)

There are two methods by which tax non-compliance is done namely; through tax avoidance which basically is the legal way of avoiding payment of tax, by tax planning while evasion of tax is an illegality. This is chargeable under different sections of the law criminal law and it is done by either under declaration or through smuggling. Thus according to (Williams and Round, 2009) they denote tax non-compliance is an act whereby taxpayers do not abide by laws and regulations governing taxation whether willingly and unwillingly.

Small Scale Traders in Nakuru

Small scale traders in Nakuru operate as the typical Micro Small and Medium Enterprises (MSMEs) in Kenya. According to the Micro and Small Enterprises Act 2012 of Kenya defines small enterprises as a firm, trade, service or industry or a business activity whose annual turnover ranges between five hundred and five million shillings and employ between 10 to 50 people and whose assets and financial investment is to be determined by the cabinet secretary. The MSME Baseline survey 2016, noted that the small scale traders operate in the informal sector characterized by low tax compliance level. Typically, this groups are involved in activities not regulated by laws, but rather subject to the rules governing the local authorities for eases of management and ease of operations. Their operation is not normally monitored and hence not factored in the computation of the GDP (Mohamed, 2009). The small scale traders in Nakuru are evolving daily in addition to being innovative and being uncertain about their daily operations. Most of the small scale traders form the Small and medium Enterprises which accounts for 95% of firms in most countries. They help in creation of jobs, create jobs satisfy local demands and provide innovate support to the large firms. Due to the challenges that they face the small scale traders have not reached their optimal level of performance. This is due to some of the challenges such as lack managerial training, lack of adequate finance and limited credit facilities, rapid technological challenges and new laws and regulation, inadequate knowledge and skills. (Kenya Agribusiness and Agroindustry Alliance,2018). The Kenya Association of Manufacturers under its business growth program (BGP)2017 is geared towards uplifting the small and medium enterprises through provision of access to market capacity building strategies for their growth and expansion in addition to support in advocacy for a more nurturing environment.

STATEMENT OF THE PROBLEM

Kenya's budget according to the National treasury has been growing at an exponential rate therefore demanding for more tax collections to finance this budget The National Economic Survey by CBK noted that SMEs contribute to 3% of the total GDP (Kenyan SME Finance Survey). The Kenya Revenue Authority (KRA) revenue target for the financial year 2014/15 was Kshs 1,121.5 billion. The Treasury target represented a growth of 16.4% over the revenue collection in FY 2013/14. (KRA revenue performance report 2015). Despite the growth of the revenue by 9.6% according to the KRA performance review & Prospects for financial year 2017/2018. The revenue authority has not been able to meet it's set revenue target set by the National treasury, for financial year 2017/2018 KRA collected Sh. 1.17 trillion against a target of

1.4 trillion (KRA performance review for financial year 2017/2018). According to the KRA 7th corporate plan the authority collected 95% of the exchequer revenue for the financial Year 2017/2018. This clearly shows that there is a need for the government and the tax authority to review its efforts to foster compliance among the taxpayers to be able to meet its revenue targets. However, the SME sector which accounts for the largest portion of the country's GDP remains under taxed, according to Public Budgeting Office, (2010) out of the total revenue target of Ksh. 442 million in 2008/2009, Turn Over Tax (TOT) only managed Ksh. 136 million about 30% of the target. The Tax compliance in this sector is low despite its productivity. According to KRA sixth corporate plan, it is noted that there are 2.7 million SME businesses in the country are not registered for tax purposes. The nature of the industry is that it operates in the informal set-up therefore making it harder for the government to enforce taxation measures and ensure compliance. Therefore, success in taxation in this industry depends on voluntary compliance. This study's focus is the effect of taxpayer awareness and compliance costs on tax compliance among small scale traders in Nakuru Town, Kenya, this will be able to assist the government understand why there is low compliance among the Small scale traders despite many researchers venturing in this research work. Despite the several research being done on this sector, there is need for further studies to be done to understand the reason for low compliance among this sector and how to mitigate them to achieve improved compliance level among this sector of the economy.

GENERAL OBJECTIVE

To evaluate the effect of taxpayer awareness and compliance costs on tax compliance among small scale traders in Nakuru Town, Kenya.

THEORETICAL REVIEW

Theories and opinions that have come to explain ways on how to improve tax compliance. This clearly shows that there is a need to improve compliance levels of the taxpayers. According to Devos 2014, most of the research work aimed at understanding tax compliance have not gained consensus due to the approach used by the multi-disciplinary groups. Most individuals and businesses would not pay taxes unless there was something motivating them to do. According to (Feld & Frey, 2007), they noted that the best motivation was by increasing incentives, while others believe that it's can be achieved through increase in fines and penalties. Tax compliance theories can broadly be classified in the following theories namely; the economic based theories and psychological and fiscal based theories and in addition there is the slippery slope framework. Most of the theories in compliance focus on attitude and relationship between the government and the taxpayers.

Economic Based Theory

Economic based theory was postulated by the works of Becker (1968) and has evolved over a period of years with different researchers looking at different variables and challenging the

findings made by the predecessor. According to the Becker he viewed economic theory in terms of economic theory in relation to crime. This stipulates that individuals are driven by purely self-interest. Economic or deterrence theory means that there are factors that prevent individuals from achieving full compliance levels due to some harboring factors such as the cost benefit effect of the same. The works of Becker were challenged by the works of Allingham and Sandmo(1972) which stated that taxpayers usually want to maximize their gains. The economic also known as deterrence theory place emphasis on rewards and incentives obtained from the process.

Economic based theory basically places emphasis on economic factors such as costs incurred, the probability of detection and punishment that an individual may get due to failure to comply with some regulations. Most businessmen core objective of business is to incur less costs and in cases where there are detected and or the fine they can pay when detected is less, they tend to overlook the compliance aspect. They like playing audit lottery according to (Trivedi and Shehata, 2005), therefore the taxpayers normally adjust their returns when filing to suit them. Therefore, the best way to prevent deterrence is by increasing fines and penalties once a taxpayer has been identified for the acts of omission and or commission.

According to Yitzhaki(1974), the taxpayer's attitude and behavioral aspects towards risk whether risk averse or risk taker influences the level of compliance in that risk aversion decreased with increase in the level of income. Thus due to the varying opinions on what actually should be done to improve compliance level within the small scale traders, this study would be useful in further determining what actually can deal with the gaps in the various theories and increase the knowledge gap.

The theory links to the current study in that despite there being the knowledge of penalties and fines and the taxpayer's attitude towards risk, the compliance level of the small traders have not improved. This is because most of the persons in this group are not in the tax bracket. The knowledge of how the fines and penalties affect their compliance level would actually be important in understanding their compliance level. One compliance costs when filing of returns, (Slemrod, 1989) noted a weakness in relation to theory in that it had inability to deal with items with different situations of a taxpayer. Other studies suggested a system comprising of both the punitive and persuasive measures may counter the problem of deterrence and therefore improve compliance level (Falkinger and Walther, 1991). Additional knowledge is needed to address the gaps of non-compliance as the studies have not been conclusive and there is also need to improve compliance status of this group.

Fiscal and Psychological Theories

The theory was postulated by the works of Schmolders (1959) basing on the assumption that taxpayers view things in self-interest rather than the communal interest. He concluded that the works reflected different cultural beliefs. In additional to the fiscal and psychological, it deals with attitudes and beliefs and social norms. In summary, it can be noted that the theory basically focuses on the human behavior which is irrational.

Consequently, Schmolders noted that taxpayers view different things differently depending on the tax mentality. This idea was enhanced by (Strumpel, 1969), where he asserts that the rigidity of assessments issued by the tax authorities may reduce tax compliance, while Kinsey, 1986) views it as purely willingness to cooperate positively increases compliance level. A combination of different variables of human behavior with awareness and education can positively influence the compliance level.

Factor such as return on taxes paid influence the compliance level of tax compliance. Spicer (1974) in most cases taxpayers tend to look at how the taxes paid have benefitted the general public or have been utilized by the government. In the Theory of Reasoned Action (TRA) by Ajzen and Fishbein (1980), noted that taxpayer's behavior is influenced by their intentions and motives and the perception on what the society might think about them. Psychology theories focus on the moral ethics and integrity of individuals.

EMPIRICAL REVIEW

The Kenya Revenue Authority established in July 1995 through the Act of Parliament by the Government of Kenya has put effort to improve the general levels of tax compliance through increase of penalties and fines (Kenya Revenue Authority, 2007) for different offences. A total collection in turnover tax of 136 million was realized in the period 2008/9 against a set target of 442 million, this registered a deficit of 306 million Kenya shillings (KRA report, December 2009). In 2012/2013 financial year the total tax revenue collection surpassed the targeted revenues. However, with the increased government budget of 1.6 trillion shillings the government still requires to widen the tax net to match the increase national budget. Available empirical evidence indicates that, over 60% of Kenya's Income tax payers file false tax returns, hampering the country's revenue growth (Munyundo, 2010). According to (Ouma et al., 2009), the informal sector accounts for 77% employment at its estimated to being about 34% of the entire sectors of the economy. Currently, the GDP of the sector according to the Economic survey of 2012 stands at 25%.

The potential GDP of the informal economy has improved over time. Between 2002 and 2008, the potential GDP of the hidden economy increased steadily every year from 7.58% in 2002 to 16.61% in 2008; with corresponding increase in tax potential as a percentage of GDP up from 2.52% in 2002 to 7.66% in 2008 (Parliamentary Budget Office, 2010). The continuously growth of the informal sector despite it not being in the tax bracket is a worrying trend since there is loss of revenue for the overall growth of the country's GDP. The continuous revamp of the economy to tap on this potential sector will greatly impact positively to improve revenue collection and assist the government achieve its objectives.

The nature of business in the informal sector limits the government's efforts in incorporating it in the taxation bracket which leaves the government with one option of ensuring voluntary tax compliance. Further, the Budget Information Program Team (2012) argues the gap between the informal sector and the government and agents and their perceptions of the informal sector may

be a barrier to proper collection of revenue. Taxes charged to SMEs include income tax, for both individual and company and (VAT) value added tax, import and export duty in addition to the Turn over tax. This study seeks to establish how these factors interplay to contribute to tax compliance or non-compliance.

In Kenya, the only avenue available for taxing the informal economy is in the form of licenses and the recently introduced turnover tax (TOT) for the micro and small enterprises with turnover of below KShs. 5 million. Under TOT, SMEs are required to submit 3% of their annual turnover as tax to the KRA. Since its introduction, the TOT has been recording declining performance. According to PBO (2010) out of the total revenue target of KShs. 442 million in 2008/2009, TOT only managed 136 million about 30% of the target. This could highly be attributed to under-declaration and tax evasion driven by the perception by MSEs (SMEs) that tax is a burden.

Effect of tax awareness and education on tax compliance

According to Oladipupo and Obazee (2016) in their investigation on the impacts of tax payers' knowledge and penalties on tax compliance amongst small and medium enterprises in Nigeria using a survey research design. The data obtained from questionnaire were analyzed using the Ordinary Least Square regression method. The results showed that tax knowledge had a positive significant impact on tax compliance Thus, the study shows that tax knowledge has a higher tendency to promote tax compliance Small and medium scale business owners should also seek to advance their tax knowledge and awareness for the mutual benefits of the governments and taxpayers.

Tax knowledge is an understanding of essential tax concepts within a country (Fauziate et al; 2016) It is important in determination of the correct tax liability in the era of self-assessment and according to KRA policy which is aimed at Trust and facilitation whereby it is expected that the taxpayer is aware and educated on the tax rules and regulations. Newman et al 2015 established that the SMEs in developed countries do not comply to the tax laws and noted that introductory classes be introduced at the basic learning levels.

Mckerchar and Hansford (2015) states that absence of tax knowledge may lead to tax noncompliance and Nyamwanza et al (2014) stated that tax awareness is not the only contributor of tax noncompliance. Tax awareness is the knowledge of which is required to be able to fulfill the various obligation by an individual whereas education involves impacting the know how to an individual with a view of producing a positive result. Tax awareness involves the knowledge recognition respect and obedience towards applicable laws and regulation in relation to taxation (Mulian and Shewan 2011). Increasing awareness through and education and other modes of facilitation impacts either way in that it may increase tax compliance or might not have any change. Tax awareness is an interterm in that the two goes hand in hand through education and facilitation the tax knowledge and awareness for mutual benefits of the government and public and may improve the way the taxpayers view the tax laws and implement them. Having reviewed the literature on the effect of tax awareness it has not been clear if

Effect of compliance costs on tax compliance

These are costs borne by taxpayers and the government for the purposes of meeting the rules and regulations governing tax compliance. The According to (Eichfelder and Schorn 2012) they are incurred by the taxpayers in fulfilling the requirements of the set out laws and in fulfilment of their obligations. (Tran-Nam, Evans and Walpole 2000) in their findings noted that taxation compliance comprises of both social costs and taxpayer compliance costs. costs incurred by the government during collection and recovery of tax are classified as administrative costs. Social costs are the costs include efficiency costs also known as dead weight losses and administrative costs. The sum of administrative and social costs is known as operating costs of compliance. Stanford 1995 states that the reasons as to why compliance costs have raised issues to the researchers is the fact that there is so many changes in technology and also complexity of tax system. According to Tran-Nam et al., 2000, they define the net compliance costs as the difference between gross compliance less the compliance benefits. Compliance benefits are the tax deductibility benefits, cash flow benefits, and managerial benefits.

OECD 2001 notes that compliance costs are real risks and therefore a lot should be considered when doing research on this topic. This is because the costs reduce the resources of the private business. (Franzoni, 1998) noted that most organizations are non -cooperative when issued with high assessments accompanied by heavy fines and penalties.

RESEARCH METHODOLOGY

Research Design

For the purpose of this study, descriptive design was adopted. The researcher does not manipulate the variables; he only reports what happened or what is happening. It is a structured way of inquiring for the data required and articulates it. It clearly defines from where the data will be sourced from and guides on how the questions will be answered. different research designs affect the type of responses to be received thus impacting on the research interventions. Research design thus deals with a logical problem and not a logistical problem' (Yin, 2009; Creswell, 2013).

Target Population

According to Best (2007), he notes that a population is a group of individuals sharing one or more characteristics common and which a researcher has an interest in. The target population for this study was all the 1416 small scale traders licensed by the registrar of trade (County licensing department in Nakuru) town, Kenya.

Sampling Strategy and Sample Size

According to Kotari (2006), sampling enables the researcher to estimate unknown characteristics of the population and make generalization with overall accuracy. The sample was selected from the population of 1416 by stratified random sampling   so as to ensure equal participation of the

subjects according to the coding done by the county government of Nakuru. The sample size consisted of traders licensed by the Nakuru county licensing department. The following formula was used to obtain the sample size as suggested by Krejecie and Morgan (1970):

$$S = \chi^2 NP\,(1 - P)/d^2\,(N - 1) + \chi^2 P\,(1 - P)$$

Where: **S** = required sample size; **N** = given population size; **P** = Population proposition that for table construction (0.50 is assumed as this magnitude yields the maximum possible sample size required); **d** = the degree of accuracy as reflected by amounting error that can be tolerated in the fluctuation of a sample proportion *p* about the population proportion *p*- that is the degree of accuracy expressed as a proportion; χ^2 = table value of chi-square for one degree of freedom relative to the desired level of confidence, which is 3.841 for the 0.95 confidence level.

Inserting the required information into the formulae gives:

$$\frac{3.841 \times 1416 \times 0.50(1\text{-}0.50)}{0.0025\,(1416 - 1) + 3.841 \times 0.50\,(1\text{-}0.50)}$$

n = 302 sample size of the SME

Data Collection Procedure

The study used both primary and secondary data. Primary data was collected from responses to the questionnaires administered to taxpayers to get the required information which made this study a success. Secondary information was collected from the taxpayer registers at the KRA offices, journals from World Bank library, KRA resource center and internet library. Primary data was obtained using questionnaires prepared by the researcher. Questionnaires allowed for collection of data from subjects and also creates ease for accumulation of data Graveter & Forzano (2003). A set of questionnaires was designed for the all the traders.

Data Analysis and Presentation

Data collected from the primary survey was compiled, sorted, edited, classified, coded and analyzed using SPSS 21.0. Descriptive profile of the business and respondents was done, followed by a presentation of the variables using descriptive statistics. The study employed cross tabulation and correlation analysis to determine the existence of significant relationships between the variables. Regression analysis then followed to determine the effect of the independent variable on the dependent variable. The following multivariate regression analysis model has been used (Rencher, 2012):

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Where: Y - Tax compliance; α – Constant; β_1 and β_2 - Coefficient indicating rate of change of tax compliances. The β coefficients for each independent variable will be subjected to a z-test in order to test each hypothesis under study; X_1 - tax compliance cost; X_2 - tax awareness

and education; Ɛ - Error term

All the above statistical tests were carried out using SPSS and all tests were two-tailed.

The Significance levels were measured at 95% confidence level with significant differences recorded at $p < 0.05$

RESEARCH RESULTS

Tax Awareness and Education

The findings have showed that tax awareness increases the level of tax compliance among the small scale traders. most traders were familiar with tax requirements there were gaps such as knowledge on tax payer identification pin number, knowledge on store and safeguard their records for period stipulated under the existing laws, understanding when they are mandated to pay tax due for assessment, knowledge on which income should is allowable in determining the taxable income and knowledge on declaration of all income for the purposes of taxation. The findings showed tax awareness and education having a positive and significant effect on the tax compliance. Among other factors identified having influence on tax compliance was knowledge especially in terms of the education level.

Tax Compliance Cost

Findings have shown that the cost of compliance affects their tax compliance according the findings in the with majority of the respondents spending a fair amount on average in order to be tax compliant especially on book keeping, software and internet and on employing staff. Basing on this, the findings have shown that cost of compliance has significant effect on tax compliance level.

INFERENTIAL STATISTICS

This is done between two variables to establish their relationship in a linear manner to see how far they diverge or converge, this depends on their relationship to determine their significance. A positive value of the correlation coefficient depicts that the two variables are correlated and move in the same direction whereas a negative correlation coefficient denotes the opposite trend. This clearly defines how different variables affect each other at a given degree though the same doesn't depict the cause-effect relation. This study therefore focused on analysis of the dependent and independent variables affecting tax compliance with the findings summarized below in Table 1.

Table 1: Correlation Results

		Tax compliance	Compliance Cost	Tax Awareness and Education
Tax Compliance Compliance cost	Pearson Correlation	0.547**	1	
	Sig. (2-tailed)	0.000		
Tax awareness and Education	Pearson Correlation	0.473**	0.103	1
	Sig. (2-tailed)	0.000	0.103	

** Correlation is significant at the 0.01 level (2-tailed).

From the findings in Table 1, tax compliance cost has a strong and significant relationship with compliance (r = 0.547, p-value = 0.000) at 0.01 level of significance. This implies that there is a probability of 0.547 tax compliance level will increase with increase in tax compliance cost. The findings also showed that tax awareness has a positive and significant relationship with tax compliance (r = 0.473, p-value = 0.000) meaning that there is a 0.473 probability that tax compliance will increase with increase in the level of tax awareness.

A regression model is generally used to assess and depict a cause-effect relationship that has been, to a certain degree, been depicted by the correlation analysis. The regression model gives the magnitude of the cause-effect relationship as well as the direction of the relationship. This is achieved through the estimation of the coefficients of estimations attributed to the explanatory variables. This means that a negative coefficient of estimation would often imply a decrease by the magnitude of the estimated coefficient in the response variable. In order to increase the accuracy of the estimated model, the standardized coefficients of estimation are utilized.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.734a	0.539	0.531	0.46454

Table 2 shows that the R value depicts a relatively strong relation between predictor variables and the response variable (tax compliance). This is because the R value is positive (0.734). The R square which is the coefficient of determination describes how tax compliance varied with the independent variables namely tax awareness and education and compliance cost. The independent variables studied explain 53.9% of the factors that affect tax compliance among the small scale traders, the remaining 46.1% describes other factors not studied in this research. With a R Square greater than 50%, it is deemed that the model fits the data availed.

The variance was analyzed to assess the significance of variation contributed. The study thus carried out the analysis of variance and the findings were summarized and presented as follows;

Table 3: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	61.771	4	15.443	71.561	.000
Residual	52.87	245	0.216		
Total	114.641	249			

The ANOVA findings in table 3 shows the significance of the regression model. The F significance value of p being less than 0.05 was established. The model is significant in prediction of tax awareness and education and compliance cost affect tax compliance among the small scale traders in Kenya. It also depicts that the regression model has a less than 0.05 likelihood of giving wrong prediction. Thus from the findings having the F with a value of 71.561 means that the model is compatible with the data.

Table 4: Estimation of regression coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.519	0.26		-1.993	0.047
Tax awareness and education	0.363	0.055	0.315	6.656	0.000
Tax Compliance Cost	0.510	0.056	0.416	9.027	0.000

This also shows that the independent variables are good predictor of tax compliance The following multivariate regression analysis model has been used (Rencher, 2012) applied as follows;

$$Y = 0.519 + 0.510X_1 + 0.363X_2$$

Table 4 gives a summary of the predicted model related to the given independent variables. It is worth noting that taking all variables constant, factors affecting tax compliance among the small scale traders was 0.519. At the same time, it showed that holding the other variables at zero, a unit increase in tax awareness and education will lead to 0.315 increase in tax compliance also the level of tax compliance would be approximately 7 times more given the change in the level of tax awareness ($t = 6.656$). A unit increase in tax compliance cost will lead to 0.416 increase in tax compliance) and this can be explained further by assessing the value of the t-test which indicates that the tax compliance level would be approximately 9 times higher given the change in tax compliance cost ($t = 9.067$). The study also establishes significant relationship between tax compliance and the independent variable; that tax awareness and education ($p=0.000< 0.05$), and tax compliance cost ($p=0.000<0.05$) as shown by the P values. Knowledge has been cited a factor that influences the ability of taxpayer to understand the aspects of taxation as a result be able to comply. Kasipillai, Norhani, and Noor (2003) assert that understanding rules and

regulations guiding taxation and requirements for compliance creates an opportunity for tax evasion. Mohd (2010) points out that it is important to increase the knowledge and awareness of the general public. By doing so the public is made aware of how the resources are utilized in the development of the nation. Webley (2004) noted that opportunity for evasion contributes a higher percentage of non-compliance. Opportunity for evasion remains invisible with many taxpayers perceiving evasion of small amounts as a minor thing.

CONCLUSION

The study concluded that tax awareness and education is important in tax compliance as it makes the traders knowledgeable in regards to matters relating to tax laws and regulation thereby improving compliance. It ensures that the taxpayers obtain their PIN and understand the need for proper record keeping as required by the authority. It also helps the traders understand when taxes are due and payable within the stipulated period. And it makes the traders aware of the income to be deducted when computing the taxable income.

The study also concluded that compliance costs significantly affects the tax compliance level, this is because the higher the compliance costs the higher the compliance levels as the traders would be able to avoid issues that would lead to higher costs such as costs of dealing with regulatory bodies, labor, internal cost, tax fairness and high tax rates.

RECOMMENDATIONS

With the gaps identified in relation to tax compliance of the small scale traders, there is need for the tax authority to engage actively with them in order to build their knowledge capacity on taxation principles and not just equipping them with the basic principles of tax returns but also to ensure that they are able to reduce their costs while filing their returns. By doing this, it increasing their knowledge of tax and improves their compliance level minimizing incidences of evasion of tax. Furthermore, regular sensitization and other programs to be organized for the purposes of enhancing tax awareness and education for proper uptake of itax system for ease of filing returns and fulfilling their tax obligations.

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