Influence of Tax Knowledge and Awareness on Tax Compliance Among Investors in the Export Processing Zones in Kenya

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Abstract

The objective of this study was to examine the influence of tax knowledge & awareness on tax compliance among Export Processing Zones investors in Kenya. This research used a cross sectional survey research design. The study population comprised of 152 duly registered and licensed firms by the Export Processing Zones Authority. Since all the registered investors in the three Kenyan Cities were considered for the study, a census sampling technique was employed. Primary data was gathered using structured questionnaires and captured through a 5-point type Likert Scale questionnaire. Statistical Package for Social Sciences (SPSS) was used in the analysis of data. Data was analyzed by use of descriptive and inferential statistics. Analysis of Variance (ANOVA), multiple regression and correlation analysis was carried out to test the hypothesis. The study established that a significant number of organizations put emphasis on employee training geared at improving their tax knowledge and awareness, thus facilitating tax compliance. The study findings revealed that tax knowledge & awareness has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply with them. It was therefore possible to conclude that firms with well-trained employees on tax issues had a high likelihood of complying voluntarily with tax laws and regulations. The study also led to a conclusion that tax knowledge and awareness had a positive and significant relationship with tax compliance. The study recommends that the Revenue Authorities should embark on public awareness campaigns to educate the public and investors on their role and responsibilities in taxation rather than approaching the matter from a legal obligation perspective. This will create a sense of responsibility in compliance rather than fear for non-compliance. Putting in place active customer oriented information desks as well as client feedback mechanisms is also a necessary tool of increasing tax compliance. Further, more robust measures should be adopted in educating the public and investors on the tax issues and policies through regular training programmes, media advertisements, workshops and seminars.

Key Words: *Tax Compliance, Tax Knowledge & Awareness, Export Processing Zones*

1. Introduction

Tax revenue forms the main source of government revenue in both developed and developing economies. Taxation provides an important avenue for financial independence of nations from external assistance (OECD, 2009). However, one of the biggest threats to this method of financing governments is tax avoidance and evasion. Developing economies are worst affected by this challenge. While developing countries record relatively higher tax compliance levels (35%), African countries report less than 23% (GIZ, 2010). Budgetary shortfalls and taxation gaps prevail in fiscal plans, resorting to dependence on unsustainable financial sources such as bank loans and multilateral donors. Developing countries therefore need to develop and implement policies that reduce prevailing shortfalls and unhealthy dependence on donor funds. Motivations for tax noncompliance are complex and pose great challenges to tax authorities throughout the world.

Kenya is ranked among low-income countries or low compliance countries with a hard task of ensuring efficient and effective tax administration. For the purpose of ensuring tax compliance, and to increase

sufficient revenue for the country, administration of tax in Kenya is done by the Kenya Revenue Authority, established through an Act of Parliament on July 1st 1995 (Cap 469).

There are many challenges that affect an efficient tax compliance system in Kenya. Some of these challenges include; poor quality of audit of tax revenues, politics and corruption. These challenges affect the structure of an economy such as the size of infrastructure in the tax design and administration. In addition, Kenya's tax system process of preparing and submitting tax returns is quite taxing (Karingi, Ndungu & Kiringai, 2005). Nyandusi, Gideon and Kiprotich (2012) in their study investigating the relationship between the size of taxpayers' income, inspection by tax authorities, use of tax registers and VAT compliance indicate that the problem of tax non-compliance among business firms constrains the realization of revenue collection targets by Kenya Revenue Authority (KRA). Results of their study also revealed that VAT non-compliance is high among the middle-income business firms, usually with little knowledge on tax matters and that inspection of business firms by tax authorities had a slight positive relationship with VAT compliance.

2. Statement of The Problem

Taxes play an important role in the budget of any economy and one of the main reasons why the government imposes taxes is to generate income to manage the economy and redistribute resources. Over the years, the Kenya government has undertaken various revenue administration reforms aimed at enhancing revenue collection (Masinde & Makau, 2010). The overall tax collection by the revenue authority has not grown proportionately to the country's economic growth. The Kenya Revenue Authority has therefore been compelled to come up with tax compliance measures like frequent audits, market surveys and frequent recruitment of taxpayers in all sectors of the economy (KRA, 2011). Unrelentingly low levels of tax compliance can cause the government's failure to achieve the necessary targets for financing the country's budget. Unless addressed, continued tax non-compliance may lead to a national crisis (Flynn, 2003).

Despite various revenue enhancement administrative reforms by revenue authorities, levels of tax compliance have remained quite low. The introduction of the self-assessment scheme by KRA in 1992 that required tax payers to register, keep records, file returns and make voluntary correct tax payments have yielded minimal results. A study conducted by KRA, KIPPRA and the Kenyan Treasury (2016), based on 2015/2016 financial year data revealed that VAT payment compliance was as low as 55% while return lodgment compliance was 65% (Thiga & Muturi, 2015). Tax non-compliance is a substantive universal phenomenon that transcends cultural and political boundaries and takes place in all societies and economic systems.

The establishment of EPZs in Kenya was aimed at facilitating export-oriented industrialization as well as enhancing industrial growth and development in the country, create employment opportunities, bring in the much-needed foreign exchange earnings, transfer technology to the local people as well as generate income through payments of taxes such as corporation tax and employee income tax payments. However, some weaknesses have been noted especially in the filing of returns and payment of taxes by the various investors during and after the tax holiday.

Studies by Simiyu (2003) identified factors influencing taxpayers' voluntary compliance among local authorities in Kenya. Kibiwott (2012) studied the determinants of tax compliance among small and medium enterprises in Uasin Gishu County in Kenya. Results from these studies indicate that the perceptions of SME operators about tax fairness, tax service quality and government spending priorities greatly affect their tax compliance decisions. Kuria, Ngumi and Rugami (2013) investigated factors affecting rental income tax compliance among landlords in Kilifi Municipality in Kenya with findings revealing that landlords opted for no taxation as they saw themselves providing services (housing) to the public which should be the task of the government.

Despite the fact that studies on the influence of tax knowledge and awareness on tax compliance exist, there is need to consider the same in the Export Processing Zones. This study therefore sought to establish the influence of tax knowledge and awareness on tax compliance among investors in the Export Processing Zones in Kenya.

3. Purpose of The Study

The purpose of this paper was to examine influence of tax knowledge and awareness on tax compliance among Export Processing Zones investors in Kenya.

4. Literature Review

Taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government (Mohd, 2010). Attitude towards tax compliance can be improved through the enhancement of taxation knowledge. A positive tax attitude helps reduce negative perceptions about tax thus increasing taxpayers' tax compliance.

Previous studies have evidenced that general tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply with them (Singh, 2003). An obvious explanation that has been raised by researchers is that enhancement of tax knowledge will increase tax compliance. Maseko (2014), investigated the impact of personal tax knowledge and tax compliance behavior of SMEs in Zimbabwe. The findings of the study revealed that unlike large companies, SMEs face different business conditions, which make them to endure a high tax compliance load.

Mukasa (2011), examined the relationship between tax knowledge, perceived tax fairness and tax compliance of small and medium enterprises in Uganda. The study adopted a cross-sectional research design, combined with qualitative (analytical and explanatory) and quantitative (descriptive and inferential) research designs. The study considered tax registered small and medium enterprises within the Central Division of Kampala District. The sample size of the study was 330 respondents. Self-administered questionnaires were used to collect data from the SME owners or managers. The study found out that, tax knowledge and perceived tax fairness had a causal relationship with tax compliance. Tax knowledge and perceived tax fairness was found to have a positive and significant relationship with tax compliance. However, the relationship between tax knowledge and perceived tax fairness was found to be weak. These findings imply that positive improvement of taxpayers' knowledge and perceptions of fairness about taxes will lead to improved tax compliance.

Berhane and Yesuf (2013), assessed the challenges and opportunities of house rental income business tax in the regional state of Tigray in Ethiopia. The study collected data from 200 respondents via a survey questionnaire. The study findings established that there exists inefficiency and insufficient number of business house rent tax assessment and collection officers in the regional state of Tigray. Moreover, the study found out that most taxpayers lack sufficient knowledge of tax assessment and collection procedures. Thus, most of the business house rent taxpayers do not know the existing applicable rules and regulations. Further, the study found out that due to negligence, delays in tax payment and evasion are taken by taxpayers as solutions to escape from payment of proper business house rental income taxes.

Normala and Obid (2010), conducted a study to examine the influence of tax education, as a proactive approach to enhance voluntary tax compliance, among taxpayers, in Malaysia. There was a move from the official assessment of taxes, to a self-assessment system, in 2004. Under the self-assessment system, a taxpayer assesses his tax liability, pays taxes to the revenue authority, and later on the revenue authority conducts audits to establish the accuracy of the declarations in returns and payment, thus a high voluntary tax compliance system. Using questionnaires administered to taxpayers and tax officials, the respondents confirmed that an increase in tax knowledge would increase the level of voluntary tax compliance. The statistical findings, confirm that there is a significant relationship between the level of tax education and the level of voluntary tax compliance.

Eriksen and Fallan (2006), found out that 'knowledge about tax law is assumed to be important for preferences and attitudes towards taxation. There is little research that explicitly considers how tax compliance is influenced by specific knowledge of tax regulations. The research done by Eriksen and Fallan (2006), has illustrated the importance of tax laws education in a tax system. They suggested that fiscal knowledge correlates with attitudes towards taxation and that tax behavior can be improved by a better understanding of tax laws (Eriksen & Fallan, 2006).

5. Research Methodology

This research used a cross sectional survey research design. A cross sectional survey research design provides an accurate means of assessing information and helps in collecting uniform and comparable data that captures respondents' similarities and differences across the sampled organizations to enrich the study findings. The target population that formed the units of analysis for this study comprised of all the 152 firms

licensed under the EPZ programme. According to the Export Processing Zones Authority, the licensed number of operating enterprises as at the close of the year 2016 was 152 firms spread across the three Kenyan cities. This means that a census technique was employed in order to include all the 152 enterprises with senior or middle management level employees in the finance or accounting departments as the respondents. Primary data was gathered using structured questionnaires and captured through a 5-point type Likert scale questionnaire. Statistical Package for Social Sciences (SPSS) was used in the analysis of data. Reliability and validity tests were conducted to determine the internal consistencies of the variables under investigation. The data was further analyzed by use of descriptive and inferential statistics. Analysis of Variance (ANOVA), multiple regression and correlation analysis was carried out to test the hypothesis. Results were presented on frequency tables.

6. Results and Discussions
6.1. Response Rate
The number of questionnaires, administered to all the respondents, was 152. A total of 127 questionnaires were properly filled and returned from various firms in the Export Processing Zones in Kenya. This represented an overall successful response rate of 84%. According to Mugenda and Mugenda (2003), a response rate of 50% or more is adequate. Babbie (2004), also asserted that questionnaire return rates of 50% are acceptable to analyze and publish, 60% is good while a return rate of 70% is considered as a very good response rate.

6.2 Descriptive Statistics
The objective of the study was to determine the influence of tax knowledge and awareness on tax compliance among investors in the Export Processing Zones in Kenya. The study findings as outlined in Table 1 below, show that the mean aggregate score for responses for tax knowledge and awareness was 3.52. This indicates that majority of the respondents agreed that tax knowledge and awareness was a key determinant of tax compliance among investors in the Export Processing Zones in Kenya. This supported the statement suggesting that their Finance or Accounts staff had been trained on tax issues with the highest mean of 3.85, followed by the statement that their Finance or Accounts staff had enough knowledge and awareness on tax and tax procedures with a mean of 3.72. One of the items "KRA website lacks is enough information on various tax procedures. Tax compliance scored lowly with a mean of 3.11 and a Standard Deviation of 1.175. The study findings are consistent with the findings of Mukasa (2011) who found out that tax knowledge and perceived tax fairness had a causal relationship with tax compliance. Tax knowledge was found to have a positive and significant relationship with tax compliance as well as perceived tax fairness. These findings imply that positive improvement of taxpayers' knowledge will greatly lead to improved tax compliance.

Table 1: Tax Knowledge and Awareness Descriptive Statistics

Statement	Mean	Std. Deviation	Coefficient of Variance
Our Accounts / Finance staff are knowledgeable and aware of tax laws and procedures.	3.720	1.168	0.314
Our Accounts / Finance staff have been trained on tax issues.	3.850	1.092	0.284
KRA website lacks enough information on various tax procedures hence low tax compliance.	3.110	1.175	0.378
Our fear of paying taxes is influenced by conflicting tax information from different sources.	3.310	1.109	0.335
Our staff often attend refresher courses and seminars organised by KRA.	3.590	0.995	0.277
Average	**3.520**	**1.108**	**0.315**

7. Regression Analysis

Regression analysis was conducted to empirically determine whether tax knowledge and awareness was a significant determinant of tax compliance. The coefficient of determination R^2 and correlation coefficient (R) shows the degree of association between the independent and dependent variable. The results of the linear regression indicate $R^2 = 0.672$ and R= 0.820 as shown in Table 2. This is an indication that there is a strong relationship between the dependent and independent variable; knowledge and awareness and tax compliance. From the model summary, a R squared of 0.672 indicates that 67.2% of the variations in tax compliance are explained by the variations in tax knowledge and awareness. Therefore, further research should be conducted to investigate the other factors that influence tax compliance among the Export Processing Zones investors in Kenya.

Table 2: Knowledge on Tax Compliance

Indicator	Coefficient
R	0.820
R Square	0.672
Adjusted R Square	0.669
Std. Error of the Estimate	0.52162

The knowledge and awareness coefficients are presented in Table 3. The results show that knowledge and awareness contributes significantly to the model since the p-value for the constant and gradient are less than 0.05. The findings imply that one positive unit change in knowledge leads to a change in tax compliance at the rate of 0.963. Results are in line with Normala (2010), who conducted a study to examine the influence of tax education, as a proactive approach to enhance voluntary tax compliance, among taxpayers, in Malaysia and confirmed that an increase in tax knowledge would increase the level of voluntary tax compliance. The statistical findings, confirmed that there is a significant relationship between level of tax education and the level of voluntary tax compliance.

Table 3: Coefficients of Knowledge & Awareness

Variable	Beta	Std. Error	t	Sig.
Constant	0.084	0.215	0.391	0.696
Knowledge & Awareness	0.963	0.060	15.989	0.000

8. Conclusions

Tax knowledge and awareness was found to be statistically significant in explaining tax compliance among Export Processing Zones investors in Kenya. The study findings revealed that tax knowledge & awareness has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply with them. It was therefore possible to conclude that firms that had high tax knowledge and awareness had a high likelihood of complying voluntarily. The study also led to a conclusion that tax knowledge and awareness had a positive and significant relationship with tax compliance.

9. Recommendations

The study recommends that the Revenue Authorities should embark on public awareness campaigns to educate the public and investors on their role and responsibilities in taxation rather than approaching the matter from a legal obligation perspective. This will create a sense of responsibility in compliance rather than fear for non-compliance. Putting in place active customer oriented information desks as well as client feedback mechanisms is also necessary. Further, more robust measures to educate the public and investors in particular on tax issues and policies through regular training programmes, workshops and seminars should be put in place.

10. Areas for Further Study

This study focused on the Export Processing Zones investors in Kenya. It is therefore the researcher's view that further research be done on other Non-EPZ firms especially those under Government incentive programmes and compare their results with those of this study.

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