

INFLUENCE OF I-TAX PROJECT ON TAX RETURN COMPLIANCE BY TAXPAYERS AT CENTRAL BUSINESS DISTRICT OF NAKURU, KENYA

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Abstract

The success of KRA largely depends on the efficiency and efficacy of ITAX in increasing tax compliance and in closing tax evasion loopholes. Currently ITAX has over 2 million subscribers. This figure is expected to keep increasing as KRA keeps stepping up its awareness drive. KRA has extended the ITAX support system to about 22 Huduma centers in 13 counties offering easy access to tax services. The web enabled system is expected to bring down the cost of tax compliance in logistics. This is part of KRA's mission to attain global best practices in tax collection, and the taxman intends to benchmark against nations that have fully automated their systems, including the US. However, tax compliance has continued to be below expectation and revenue targets are not being met. The aim of this study was to establish the effect of I-Tax on tax return compliance in Nakuru town hence, a descriptive research enabled data collection from the population. The unit of analysis for the study was any individual taxpayer in Nakuru that has registered themselves with the Kenya Revenue Authority. According to domestic taxes report 2016 Nakuru town CBD had registered approximately 50,000 taxpayers on ITax. Individual taxpayers who are the majority among the registered groups of taxpayers were more suited for the study because they stand to accrue more benefits by adopting electronic filing since it will save them on cost and time used in tax compliance. A sample of 50 individual taxpayers was selected for the study. Selection was done using stratified random sampling. Stratification was done on the tax payers based on whether they are registered on ITax or not. The sample size chosen was a factor of available time and resources to carry out the research. In conclusion, it was established that majority of Nakuru town taxpayers are willingly registered online with ITax. 77.8% file their own taxes individually at their own convenience. The rate of compliance is relatively high at 88% of tax payers meet their tax obligations before the deadline. Among those that have ever requested for a tax compliance certificate from KRA, 76% were given while 24% were denied. Those denied TCC confirmed that the reason for denial was because of pending penalties from periods of not filing returns. Among the taxpayers that have ever suffered a penalty, 100% of them do not need to be reminded to file their returns anymore. This can be concluded to mean that the fines and penalties have increased the level of tax compliance by deterring noncompliance. Taxpayers are aware that not complying will result in fines and penalties and are therefore more vigilant in ensuring that they meet all their tax obligations on time.

Keywords: i-Tax, Tax Return Compliance

I.Introduction

According to Ernst& Young LLP (2016) the digital age is rapidly transforming the relationship between tax authorities and taxpayers. The tax authorities are driven by a desire for more revenue, greater efficiency and improved compliance in an environment of shrinking resources. Tax authorities are increasingly relying on digital tax data gathering and analysis, using digital platforms to facilitate real-time or near real-time collection and assessment of taxpayer data. This move has enabled tax authorities to use the information to respond quickly and in more targeted ways to perceived compliance risks. Businesses with dated systems or those that are not able to adapt quickly may face increased risk, unexpected costs and compliance challenges to which they are not prepared to respond. Some countries are leading the digital revolution while others are years away from embracing digitization. Chile was one of the first economies to adopt electronic systems in its tax administration. The first step was shifting from hardcopy filing to paperless imaging. Online tax returns were

submitted first in 1998. This was however not without several challenges. First there was limited internet access by taxpayers and the collapse of their information technology system especially close to the deadline. There was also reluctance by tax preparer to use the new system as they saw it as a threat to their profession.

Malaysia revenue body IRB in a bid to improve revenue collection embraced the electronic tax system. The goal was to cut time and cost and to help the taxpayer meet tax obligations more easily. Malaysia's IRB provided necessary forms that one had to download, fill and then submit online to the tax authority. IRB was however faced with some major challenges key among them being lack of taxpayers' readiness to use the online system. Two years into the introduction of e-filing only 5% of the taxpayers were using it. Taxpayers cited uncertainty about the security and privacy of information submitted online. According to Elizabeth Asianzu & Gilbert Maiga (2012) in Uganda the URA has boosted its revenue by running an online tax administration system referred to as E-tax. This system offers benefits to the taxpayer as well as the tax authority by offering 24 hour service to taxpayers. It has aided the filing of tax returns that can now be done in minutes contrary to the manual system that would take hours. However, the system is still facing challenges due to lack of connectivity most of the times, and as such only large companies are effectively using it. Small and medium sized companies and individual taxpayers are still experiencing challenges. E-tax faces continuous system failure and has little backup support for customers. There's also low information system penetration in Uganda and as such the acceptance rate of the electronic system is low. Lack of user support and a negative attitude towards the E-tax system has contributed to the slow adoption of the E-tax systems with many taxpayers opting to file manually.

In Kenya, ITAX was launched in 2011 to replace the previous system ITMS (integrated tax management system) which failed to automate taxation causing serious customer dissatisfaction. ITAX is a one stop shop for various domestic taxes functions such as PIN registration, Filing of tax returns, processing of claims and refunds and status inquiries with real time monitoring of accounts. With ITAX, taxpayers are able to register, file returns, make payments and enquire about their status, while monitoring their accounts in real time 24 hours a day, from the comfort of their homes or offices. The system has simplified and quickened tax compliance and secured the exercise, thus bringing down the cost of tax administration. The benefits of an ITax System over submitting manual returns to the tax authority's office are that the returns are uploaded directly to the income tax authority's systems with negligible possibilities of human errors. When contrasted with manual returns, I-Tax returns cost less to process both regarding cost and time to the tax authorities and also the taxpayer (Lemuria Carter (2011)). Taxation of income in Kenya is governed by the income tax act which was enacted in 1974. Income tax is direct tax imposed on business income, employment income, rent income, pension, and investment income among others. Every person with this chargeable income is required by the law to obtain a PIN (personal identification) number from the domestic taxes department.

Tax compliance is defined as the full payment of all taxes that are due Braithwaite (2009) and timely reporting of the correct tax information to the tax authority. All persons including companies are required by law to submit their returns to the commissioner of domestic taxes within 6 months after the end of the accounting period. Tax noncompliance refers to any difference between the actual tax paid and the actual tax due. The difference could occur as a result of overstating expenses or deductions and understating income. Noncompliance

comprises both intentional evasion and unintentional noncompliance caused by calculation errors and an inadequate understanding of tax laws. Mwangi Muturi (2015) in his research carried out in Meru County on the effects of online tax system on tax return compliance found significant improvement in tax return compliance due to ITAX but there was a lot of taxpayer insecurity with online filing as they were questions about the security of the system with taxpayers' private information.

Gekonge Justus Maisiba Dr. Wallace Atambo (2016) in their study of Uasin Gishu County on Effects of Electronic- Tax System on the Revenue Collection Efficiency of Kenya Revenue Authority also concluded that there was significant growth in tax return compliance following introduction of ITAX. However system downtime and lack of technical support by the tax authority was causing major frustration to the taxpayers. Ndara Thomas Gwaro, Dr. Kimani Maina, Dr. Josphat Kwasira (2016) in their research carried out in Nakuru on Influence of Online Tax Filing on Tax Compliance among Small and Medium Enterprises in Nakuru Town concluded that ITAX has not had any significant contribution to tax return compliance. Joanna Nasr (2016), states that a tax system gains the most benefits of online system when it achieves 100% use of online system for filing and paying taxes.

II. Statement of the Problem

Tax collection systems in Sub – Saharan Africa unlike in the Western countries are still developing. The World Customs Organization (WCO) has helped in setting up standards that averagely need to be adopted by almost every country in order to combat tax vices that exist in almost all countries (IMF, Nov. 2005). For a government to match its performance with the growth and expectations of its citizens, it must be able to increase productivity and efficiency of its business without incurring recurring overhead costs. Automated systems have been proved to increase efficiency to business processes which can result to increased revenue. In recognition of the need to undertake coherent and comprehensive reforms, some years back, the KRA adopted a Tax Administration Reform and Modernization Programme whose primary objective was to modernize and integrate its operations in line with international best practice of tax collection.

The success of KRA largely depends on the efficiency and efficacy of ITAX in increasing tax compliance and in closing tax evasion loopholes. Currently ITAX has over 2 million subscribers. This figure is expected to keep increasing as KRA keeps stepping up its awareness drive. KRA has extended the ITAX support system to about 22 Huduma centers in 13 counties offering easy access to tax services. The web enabled system is expected to bring down the cost of tax compliance in logistics. This is part of KRA's mission to attain global best practices in tax collection, and the taxman intends to benchmark against nations that have fully automated their systems, including the US. However, tax compliance has continued to be below expectation and revenue targets are not being met.

An electronic system if implemented well and used by all taxpayers as intended by the company benefits both the taxpayer and the tax authority. For the tax authority electronic filing reduces the workload and operational costs such as the cost of handling, processing and storing tax returns. For the tax payers, ITAX gives the convenience of filing tax returns and registering tax payments at the comfort of their homes or offices. According to the Business daily July 20 2017 in the financial 2016/2017, the Kenya revenue authority missed its target by 50 billion. According to finance secretary Henry Rotich, the I-Tax system had registered 86% usage over a period of nine months. In spite of this, there was 7.9% depressed growth in

payee. A number of studies have been done globally, regionally and locally to assess the financial effect of Online tax systems on compliance. The overall result cited lack of trust in the security of the system, lack of taxpayer's readiness to use the system and poor internet connection for most countries as the cause of taxpayer's resistance to use online tax systems.

Locally and within Nakuru town, only two studies have been done on the effect of ITax on tax compliance. Ndara Thomas Gwaro, Dr. Kimani Maina, Dr. Josphat Kwasira (2016) in their research carried out in Nakuru on Influence of Online Tax Filing on Tax Compliance among Small and Medium Enterprises in Nakuru Town, concluded that ITAX has not had any significant contribution to tax return compliance. In a different study done by Loise Njoki Mwangi and Josphat Kwasira (2017) on Analysis of Income Tax Compliance Levels among Workers in the Informal Sector in Nakuru Central Business District, they found out that 57.95% of the workers in the informal sector were registered on I-Tax platform as individual tax payers while 42.05% were not. Findings from the two studies carried out in Nakuru town, as well as reports by the DTD section of KRA shows that the rate of tax payers compliance as at 2016 was only 57%. This is in spite of the roll out of a fully operational ITax support center in Nakuru town. This study therefore sought to find out why the rate of tax compliance remains low, and also find out how I-Tax has influenced the rate of compliance among taxpayers of Nakuru town CBD.

III. Research Objectives

- 1) To establish the effect of fines and penalties on tax compliance by taxpayers at central business district of Nakuru, Kenya
- 2) To establish the influence of taxpayers attitude towards the use of ITax on tax compliance by taxpayers at central business district of Nakuru, Kenya
- 3) To determine the effect of cost of compliance on tax compliance by taxpayers of Nakuru town CBD by taxpayers at central business district of Nakuru, Kenya
- 4) To analyze the effect of taxpayer training on effective tax compliance among taxpayers in Nakuru town by taxpayers at central business district of Nakuru, Kenya

IV. Research Questions

- 1) What is the effect of fine and penalties on tax return compliance amongst taxpayers at central business district of Nakuru, Kenya?
- 2) What is the taxpayer's attitude towards the use of I-Tax and its effect on filing of returns amongst taxpayers at central business district of Nakuru, Kenya?
- 3) How does ITax affect the cost of compliance amongst taxpayers at central business district of Nakuru, Kenya?
- 4) What is the relationship between taxpayers training on the use of I-Tax and the rate of tax return compliance by taxpayers at central business district of Nakuru, Kenya?

V. Literature Review

According to Joanna Nasr (2014) by the year 2012, 76 of the world economies had implemented electronic tax filing and payment systems. Joanna Nasr 2014 in her study of implementing electronic tax filing and payment in Malaysia states that by 2004, Malaysia's revenue board IRB had started an initiative for filing taxes and making payments that would do away with paperless transactions and promote electronic transactions. Among a tax authority's engagements is processing returns, entering tax data into the database, making assessments and processing tax payments and issuing refunds among others. By expanding

the use of information and communication technology, a tax authority can easily boost its efficiency.

The IRB sought to increase revenue collection by improving services to the taxpayers. They aimed at cutting costs and time and allowing the taxpayer to comply with their tax obligation more easily. This would ensure that IRB maintained a good relationship with taxpayers as well as widen its tax base. IRB implemented a roaming infrastructure system that gives access to users from any location. It integrates filing and payment on one platform. A taxpayer fills a form of either tax filing or tax payment, and submits it online, and then gets an acknowledgement immediately. The e-filing system calculates the necessary payment details and therefore helps the taxpayers to avoid mistakes that would otherwise have occurred on the manual system resulting in penalties. The implementation of the electronic system however did not come without several challenges. The major challenge being that the public was not ready to use it. During the time that the electronic tax filing was introduced, it was optional for individual taxpayers to use it. Two year into its adoption, only about 5% of taxpayer population was using this system. Studies were conducted to establish the cause of this reluctance and they found out that the taxpayers were uncertain about the security of information transmitted online. Some users were also uncomfortable with technology and the new system created anxiety for them. Due to the low participation IRB expanded its promotional efforts through seminars, advertisements, flyers and roadshows. It also realized the importance of involving stakeholders and asked for their input in enhancing the system. IRB also gathered feedback from the users and used that feedback to enhance the system. All this input finally showed results as between 2006 and 2011 the number of people filing electronically had increased from 5% to 34%. Tax collection also increased from 14.5% GDP to 15.3%.

According to PWC journal, paying taxes (2018), Estonia stands out in the provision of government services online. 600 e-services are offered online to its citizens including filing of returns and payment of taxes. This feat was accomplished by the issuing of a mandatory electronic identity card to all its citizens. A taxpayer logs into the system, reviews their data on pre-filled forms, makes necessary changes and then approves the declaration forms. Taxpayers spend a maximum of only 81 hours per year in preparing, filing and paying their taxes and other mandatory contributions. Each year around 95% of all tax submissions are done electronically. According to PWC journal, paying taxes (2018), the republic of Korea has made the use of electronic VAT invoices mandatory for all taxpayers. Digital technology has also enabled pre-population of tax returns using information from third parties. Taxpayers therefore only need to verify the information they are presented with which eases the tax burden significantly.

Worldwide, the challenges of electronic filing system seem to be the same. Compliance is affected by tax payer's attitude, cost of compliance, lack of training and the tax system in general. Ser Pei Ching (2013), in the study of "determinants of tax compliance in Malaysia" found out that gender did not necessarily influence tax compliance. Instead compliance is influenced by age group, marital status, income level, tax rate, tax education and public governance. Rizalpalil and Mustapha (2010) in their study "tax knowledge and tax compliance determinants in self-assessment system in Malaysia" concluded that tax knowledge has a significant impact on compliance and different individuals have varying levels of tax knowledge. High income earners and Tax payers who have attended tax courses and trainings seem to be the most knowledgeable. Findings also indicate that compliance was

influenced by the likelihood of being audited, perception of government spending, penalties and fines, individual financial constraints and peer group influence.

Nigeria introduced TIN (unique tax payer identification number) and the automated tax system in 2014. These changes have brought about improvement in tax administration in the country. Nigeria was in 2015 ranked third from bottom in tax compliance. Taiwo oyedele PWC (2016) in his study established that out of the 10 million Nigerians registered for personal income tax purposes only 4.6 million are registered with LIRS. This is just a small section of the total labor workforce which is 77million people. According to the national bureau of statistics the number of people in the tax net is 13%. Nigerian finance minister was quoted as saying that the rate of compliance is about 12%. This low level of tax compliance is attributed to such factors as incoherent fiscal policies and an inefficient tax administration system leading to high level of tax evasion. A study done by PWC to find out why there was such low levels of compliance found that 70% of respondents said that there was no accountability in utilization of funds by the government. 22.5% said the tax rules were unclear and compliance processes complicated while 7.5% said it was due to poor enforcement by the tax authorities.

Atawodi (2012), in her study “factors that affect compliance among small and medium enterprises in north central Nigeria” found out that high rate of taxes, complex filing procedures, multiple taxation and lack of proper tax education affected compliance levels. According to Taiwo oyedele PWC (2016) the only way forward for Nigeria is to simplify the tax system, Capacity building through training of taxpayers and also the tax authority personnel. The tax authority should also take advantage of technology and innovation including social media. Full information about revenue and expenses should be made public to create trustworthiness to the public.

In Rwanda, according to a journal by the Investment climate facility for Africa titled “Electronic tax filing and payment improves business climate in Rwanda” (April 2014), Taxpayers are reaping great benefits since the introduction of electronic filing in 2012. Taxpayers are able to meet their tax obligations on time and the RRA has greatly improved its efficiency. Since the taxpayers can file and pay their taxes from anywhere, this greatly reduces the time spent in filing to just a few minutes contrary to the manual system that would take several working days. On the part of RRA, tax officers do not have to overwork, especially during the time close to the returns filing deadline and have now being deployed to more strategic functions like audit. RRA has also made great savings on recurrent costs as they don't have to procure forms, receipts and printing consumables. According to Richard Tusabe, the deputy commissioner general of RRA, 100% of large taxpayers, 90% of medium taxpayers and 26% of small taxpayers have embraced the e-tax system.

Raphael W Jankeeparsad et al (2015) in their research titled “acceptance of the electronic method of filing tax returns by South African taxpayers” found that e-filing was one of the most successful government initiatives by SARS. Initially e-filing was used only for the submission of and payment of VAT and PAYE. The platform was however expanded in 2007. Since its introduction SARS has made major improvements to the e-filing system in order to encourage more taxpayers to use the system. This includes workshops, online videos detailing the process of filing returns online, live online help facilities among others. Despite these efforts by SARS, only about 25% of taxpayers were using the e-filing by 2014. For the

tax authority to reap the full benefit of online filing, there needs to be acceptance and 100% utilization by the taxpayer.

In Croatia, Cvrnje (2015) investigated the effects of tax education in combating tax system complexities, low tax morale and noncompliance. Tax literacy is the possession of specific tax oriented knowledge of accounting and numeracy skills that is required for managing tax calculations. By acquiring basic knowledge of taxation, individuals are able to manage their personal finances and understand the logic of effects of fiscal policy.

According to Elizabeth Asianzu & Gilbert Maiga (2012) in Uganda the URA has boosted its revenue by running an online tax administration system referred to as E-tax. This system offers benefits to the taxpayer as well as the tax authority by offering 24 hour service to taxpayers. E-tax services support online filing and assessment of returns. It also offers electronic funds transfers that enable taxes to be paid online and refunds to be issued across the internet. There are also web based information portals that are used to offer tax education to taxpayers. Multiple benefits have been realized by the use of e-tax which includes less time used in tax compliance, safety and security of information and less cost of compliance.

Closer home in a research done by David Wasao (2014) to assess the effects of online tax system on tax compliance in East of Nairobi tax district, he found that online registration of taxpayers makes recruitment of taxpayers easy and therefore enhances compliance. However a smaller number filed their returns online than the total registered taxpayers. Muita (2010) in her MBA thesis has also done research on factors that determine the adoption of e-filing among LTOS in Kenya. The study examined the skills needed by the e-filers, the technology required and the tax authorities' readiness in enhancing the adoption of tax compliance based technology. The study found out that for e-filing to be efficient, skills infrastructure and a conducive environment is required.

Muita (2011), in her study of the factors affecting adoption of e-filing in Kenya, found that e-filing leads to managerial benefits and cost saving. This is due to reduced transaction costs caused by online lodgment and electronic submissions and transfers which will reduce compliance costs for small businesses. Dr Elizabeth Nambuswa et al (2017) in their research on effects of ITax on tax collection efficiency in Rift valley region found that for an online tax system to be completely efficient, the tax body needs a reliable system and staff on the ground to deal with emerging issues. On the main objective of this study which was to develop the significance of Electronic Tax Payment system on the tax collection efficiency in Rift valley, it found that for the electronic system to boost tax compliance, KRA employees need to be competent and helpful in issues arising in filing of tax. KRA also needs to introduce special electronic tax payment counters and extend working hours to enable the public to submit their returns with the help they need. The tax authority should also upgrade their system regularly to counter system problem arising often. KRA should also offer continuous training to taxpayers on how to do online return. It should also set up booths at public centers and do aggressive reach out campaigns to create public awareness.

VI. Research Methodology

This study used a descriptive design because it enables the researcher to collect a large quantity of in-depth information about the population being studied. The aim of this study was to establish the effect of I-Tax on tax return compliance in Nakuru town hence, a descriptive research enabled data collection from the population. The unit of analysis for the

study was any individual taxpayer in Nakuru that has registered themselves with the Kenya Revenue Authority. According to domestic taxes report 2016 Nakuru town CBD had registered approximately 50,000 taxpayers on ITax. Individual taxpayers who are the majority among the registered groups of taxpayers were more suited for the study because they stand to accrue more benefits by adopting electronic filing since it will save them on cost and time used in tax compliance. A sample of 50 individual taxpayers was selected for the study. Selection was done using stratified random sampling. Stratification was done on the tax payers based on whether they are registered on ITax or not. The sample size chosen was a factor of available time and resources to carry out the research.

VII. Research Findings and Discussions

Effects of fines and penalties tax compliance

The respondents were asked to state whether they meet all their tax obligations before the deadline. This question sought to establish the level of tax compliance for the respondents. 88.9% stated 'Yes' while 11.1% stated 'No'. The respondents that responded that they do not meet their tax obligations before deadline were asked to state the consequences they have suffered from not meeting the deadlines. 75% stated that they have had to pay fines and penalties while 15% stated that they could not be issued with a TCC because of not meeting previous filing deadlines. Tax compliance in Nakuru County seems to be above average as a random selection of taxpayers' show the compliance rate is at 89%. Fines and penalties might have caused the increase as it is already being implemented by the revenue authority and several people have suffered the consequence as shown by the response of the respondents. Such stringent measures as penalties serve the purpose of discouraging future noncompliance by those to whom they are imposed as well as serving as an example to others that might get to know about their existence

Table 1: Applied for Tax Compliance Certificate (TCC) with TCC given and no reminder required

| | Frequency | Percentage |
|-------------------|-----------|--------------|
| Strongly Agree | 13 | 40.6 |
| Agree | 9 | 28.1 |
| Not Sure | 6 | 19.4 |
| Disagree | 2 | 6.5 |
| Strongly Disagree | 1 | 3.2 |
| No Response | 1 | 2.2 |
| Total | 32 | 100.0 |

Respondents were then asked to state whether they had ever applied for a tax compliance certificate. Those that responded 'Yes' were requested to confirm if they had been issued with the TCC or not. A TCC is issued if one is tax compliant and denied if one is non-compliant. Those whose requests were denied were asked to state if they now need to be reminded to meet filing deadlines. This was in order to test the effects of fines and penalties on compliance. Those whose request had been denied were asked what reasons KRA gave for denying TCC and 100% of them answered that they had penalties from previous years of not filing. The respondents were then asked if they needed to be reminded to file their returns and 100% of those who had previously been denied TCC answered that they did not need to be reminded. This is as opposed to only 68% of those that had never applied for TCC and denied. The lesser number is more likely because no fine or penalty has been imposed on them and they are therefore uninformed or reluctant because they do not know the

consequences of not filing. From this analysis, it can be concluded that fines and penalties has had a positive effect on compliance as respondents that had previously accrued fines stated that they now needed not be reminded to file as they had seemingly learnt their lesson. The imposition of fines by KRA aims at deterring noncompliance as taxpayers do not want to accrue fines due to non-compliance. KRA has been imposing very heavy fines for failure to meet filing deadlines and those taxpayers that are informed about the need to remain tax compliant do not wish to accrue such fines. Therefore the existence of this deterrence measure works to ensure continued tax compliance.

Table 2: Applied for Tax Compliance Certificate (TCC) with TCC denied and no reminder required

| | Frequency | Percentage |
|----------------|-----------|--------------|
| Strongly Agree | 2 | 50.0 |
| Agree | 2 | 50.0 |
| Total | 4 | 100.0 |

Effects of fines and penalties tax compliance Effects of taxpayers attitude towards the use of ITax on tax compliance

Several questions were asked to test the respondent’s attitude towards ITax and filing of returns. This includes such statements as, I file my own tax returns, ITax system is very difficult to use, I don’t need to be reminded to file my returns and finally, given a chance I would not file my returns. The mean and standard deviation are analyzed in the table below. Majority of the respondent file their own returns shown by a mean of 1.2222. A majority of the respondents also find ITax easy to use as the mean of the response from that question is 1.6389. On the question of need of reminder to file, a mean response of 1.9429 was recorded. This means that majority of the respondents agreed that they do not need to be reminded to file their returns. However respondents reply to whether they would file or not when given a chance not to file indicate that the respondents were not sure of what they would do. Results with a mean of 3.3143 were recorded. This analysis shows that most taxpayers in Nakuru County have embraced tax compliance and no longer find it as an activity that impossible to do by oneself or that is unnecessary. Taxpayer education has also been well received and taxpayers respond to requests by KRA to attend trainings and therefore influence their decisions and attitude on tax compliance.

Table 3: Effects of fines and penalties tax compliance Effects of taxpayers attitude

| Question | N | Maximum | Minimum | Mean | Std. Deviation |
|--|----|---------|---------|--------|----------------|
| I file my own taxes | 36 | 1.00 | 2.00 | 1.2222 | .42164 |
| ITax is very difficult to use | 36 | 1.00 | 5.00 | 1.6389 | .83333 |
| I don’t need to be reminded to file | 36 | 1.00 | 5.00 | 1.9429 | 1.05560 |
| Given a chance I would not file | 36 | 1.00 | 5.00 | 3.3143 | 1.32335 |
| I always file on time | 36 | 1.00 | 5.00 | 1.6667 | 1.04198 |
| There are no long queue during filing | 36 | 1.00 | 5.00 | 2.2778 | 1.04198 |
| Online filing has reduced filing costs | 36 | 1.00 | 5.00 | 1.7222 | .84890 |
| ITax saves time | 36 | 1.00 | 5.00 | 1.6111 | 1.10267 |

Source: research findings

Respondents were also asked to agree or disagree with this statement. This sought to establish the respondents' attitude towards returns filing and towards ITax. When respondents were asked to rate how they agreed or disagreed to 'given a chance I would not file returns' majority (33%) were not sure whether they'd file or not. 12% strongly agreed and 14% agreed. 17% disagreed and 24% strongly disagreed. It can be concluded that most taxpayers have embraced tax filing as 41% in total stated that given a chance not to file their returns, they would choose to file anyway. This is in comparison to only 26% who would not bother to file if they were allowed to. The 41% who were sure that they would file their returns anyway are the percentage that's informed probably through training or through vlogs posted on social media educating the public on filing. They have therefore embraced filing as necessary and important for their own good. The other 26% are the few that are still negative about filing returns and are not informed on why it's important or they are just ignorant with a negative attitude towards ITax or filing in general and do not understand why they are needed to file.

The respondents were asked to state whether they do their own return filing and submission themselves. The results showed that 77.8% answered to the affirmative while 22.2% stated 'No'. A large number of taxpayers have embraced doing their own tax assessment without the mentality that it is impossible or not important. However 22% of taxpayers do not do their own self-assessment. This is still a large number in an exercise that has been simplified to make it easy and convenient for the taxpayer. Therefore the respondents that stated that they do not file their own returns were asked to state verbatim reasons as to why they do not file their returns themselves. This question sought to find out challenges that taxpayers could be facing with Itax. This question sought to find out the attitude of taxpayers towards use of the ITax system as well as the usability of the system. From the results it was established that 32% of the respondents replied that the returns filing is done in their companies headquarters, 16% cited challenges experienced while login in, causing them to look for help elsewhere in order to complete their returns filing, 16% cited network hitches during the returns filing period making it impossible to do self filing. 16% of the respondents also claimed that they had not received any type of training on using ITax and were therefore incapable of filing their returns on their own. The remaining 20% gave no explanation for not doing self filing. From these responses we can conclude that a combination of system hitches as well as bad taxpayers attitude is the cause of taxpayers unwillingness to commit their time and effort and do the self assessment themselves. This could be due to tax payers education not reaching this specific taxpayers, general lack of interest on the part of the taxpayer or ignorance to know why it is important to file ones returns. Taxpayers generally file returns just it's a requirement but he/she does not take the interest in knowing why its required.

Effects of cost of compliance on tax compliance

Respondents were asked to state the taxes they have registered for on ITax. This sought to establish the Means of livelihood of the respondents selected for the study. The results showed that 75% of online users are registered for PAYE, This means that they are employed and earn a salary. 11.1% registered for VAT, this means that they provide/sell a product or services. 2.8% registered for no income (NIL returns) which basically means they have no registered income. While 2.8% registered for Corporate Tax, PAYE and income tax foreigner. Corporate tax is levied on companies while income tax foreigner is Payee paid by foreigners working in Kenya. Another 2.8% for PAYE, VAT and withholding taxes. Withholding taxes are taxes levied on interest, dividends, commissions, royalties and professional fees i.e. consultation fees. Another 2.8% were registered for income tax

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foreigner. Finally 2.8 % were registered for vat and withholding taxes returns. From this analysis we can therefore deduce that the majority i.e. 75% of taxpayers that participated in the research are employed, 11.1% run businesses that either provide goods or services 2.8% have not registered any income source and another 2.8% are foreign owned companies.

Effects of cost of compliance on tax compliance

| Benefit | Frequency | Percent |
|----------------------|------------------|----------------|
| Convenient | 8 | 17 |
| Cost saving | 3 | 7 |
| Easy to get a loan | 3 | 7 |
| Easy to obtain TCC | 1 | 3 |
| Easy to use | 4 | 19 |
| Fast | 4 | 19 |
| None | 8 | 17 |
| Proof of tax payment | 2 | 4 |
| Time saving | 3 | 7 |
| Total | 36 | 100 |

Source: Research findings

Respondents were then asked to state the advantages they consider of I-Tax. This was an open ended question. Among the reasons stated as the benefits of being registered on Itax, the most popular benefits were that it is easy to use and its also fast to do as compared to manual filing. Both reasons had a rating of 19% each. Convenience of ITax was also popular with a rating of 17%. Cost saving had a rating of 8% whereas the benefit of itax of making loan accessibility easy had a rating of 8%. 3% of the respondents stated that among the benefit of ITax is that its easy to obtain a TCC when you are registered on ITax. Another 3% stated that its beneficial because it acts as proof of tax payment. 6% find ITax to be time effective as it saves time and lastly 17% do not find ITax beneficial at all. From the responses only 17% of the respondents find nothing beneficial in ITax. This could be the percentage that has a negative attitude in regards to ITax and only file because it's a requirement and they do not bother to know why filing of their returns is important. They are closed minded in matters ITax and do not find anything beneficial in ITax. However the other 83% all cited something positive about ITax and its benefits. This is the percentage that has embraced ITax and has sought to be informed about its benefits and how the taxpayer stands to gain by being tax compliant. Most of the benefits cited of Itax amount to cost saving in terms of convenience, time saving and fastness of the system. The reliability of Itax makes its easy to file own returns therefore reducing the queues and therefore saving time and money.

Respondents were asked to agree or disagree with the statement that use of ITax saves filing cost considerably. This statement sought to find out the level of the respondents agreement with the cost effectiveness of the ITax system. 88% of the respondents agreed that costs have been reduced considerably by online filing as opposed to just 8% who were not sure and 4% who disagreed. From the massive positive response on agreement to the cost effectiveness of the ITax system, it can therefore be concluded that ITax system has helped to bring down the cost of tax compliance considerably. The cost of compliance can be determined by the number of hours one spends in the task of filing returns or meeting other tax obligation at the expense of something more productive for the business. Meaning that the task of tax return filing has eaten into business profits by consuming more time than is set apart for it. Compliance costs could also be money paid to a consultant to do the tax filing for an

individual or money paid to a cyber-attendant to assist in returns filing, by doing individual tax returns at the comfort of one's home or office the cost of tax compliance is reduced as it saves on time and money that would otherwise be used to comply.

Respondents were asked to agree or disagree with the statement that 'use of ITax saves time'. This question sought to find out the time cost of the ITax system to the users. From the results, out of 36 respondents, 22 strongly agreed that ITax saves time, 12 agreed, 2 were not sure and 1 disagreed. From this information, we can conclude that indeed use of the ITax system saves time as 94% of the respondents agreed with this statement compared to only 3% who disagreed. The time saving aspect of ITax is in regard to how much work or business time is spent outside of the business or the work place in order to comply with tax requirements. If more time is sacrificed outside the business or workplace in order to comply with tax requirements this means that tax compliance is affecting the productivity of the workplace as it is eating into business hours. On the other hand, if less time than was previously used is now being spent on tax compliance, then we say that ITax saves time.

Effect of training on tax compliance

Two questions were asked about training, the first question sought to establish how many of the respondents had attended training on ITax and the other comparison question sought to establish the taxpayers that were tax compliant. This question sought to establish the effect of training on tax compliance as training is considered a major contributor to tax compliance.

As shown in table 4.7 an analysis was done comparing those that attended training and their answer to the question of whether they file their returns on time versus those that have never attended training and whether they file their returns on time. 80% of those who stated that they had ever attended a training on ITax also stated that they had never missed a filing deadline. Whereas 70% of those that had never attended any ITax training also stated that they had never missed a filing deadline. 30% had missed a filing deadline and been penalized. Of the respondents that had ever attended ITax training, 12% stated that they had ever missed a filing deadline meaning they are not tax compliant. 20% of those that had never attended ITax training also stated that they had at some point missed a filing deadline meaning they are not also tax compliant. There is a high number of respondents that have received ITax training and are tax compliant and only few respondents who have received ITax training are tax noncompliant. It can therefore be concluded that training has a positive effect on compliance as 80% of those that have ever attended training on ITax file their returns on time as opposed to 70% of those that have never been trained that file their returns on time.

Respondents were also asked to agree or disagree with the statement 'ITax system is easy to use. This question sought to determine the usability of the ITax system and also the Friendliness of the ITax system to the user. From the results, 50% strongly agreed, 42% agreed, 5% were not sure and 3% disagreed. From the analysis it can be concluded that ITax system is relatively user friendly as an overwhelming majority (92%) agreed to the statement against 3% who disagreed. This proves the user friendliness of the system. KRA have put effort in taxpayer education in sensitizing taxpayers on the aspects of the ITax system and what is needed in order to effectively file returns. Those that have taken interest and attended the training or used the self-help manuals posted on the website are most probably the ones who find it easy to use and effectively use it. Those that have not taken the time to learn how to file their returns on the ITax system or attend training on the same are probably the ones who have no idea on how to use the ITax system and find it difficult to use,

When asked to state the reasons for registering on ITax, where the respondents were asked to tick on the box representing their reason for being registered on I-Tax or state in the box for 'Others' if they had a different reason for registering. All the respondents selected for the survey were all required to be registered on I-Tax. When asked to state their reasons for registering, 13.9% registered because of the fear of being caught, 44.4% because of their own willingness, 33.3% because of the benefits arising from I-Tax and 8.3% for other reasons which included to have a clean record with KRA, to avoid penalties, to easily invest, for others, registering on ITax is a requirement in the work place and by KRA, and to know if the employer submits returns. From the survey report, only 13.9% registered because of fear of being caught. The remaining 87% registered because they understood the benefits associated with ITax and the importance of being tax compliant. From these results, we can deduce that tax education might have served the purpose it was meant for as taxpayers are now well informed of why they should file tax returns and meet all their tax obligations on time.

ITAX system functionality

Under this question, respondents were asked to rate the functionality of the I-Tax system. This involved both the system and the process of tax return. The bar graphs below show the responses in response to respondent's attitude towards filing, the effect of ITax on cost and the ease of use of the ITax system. The descriptive statistics showing each of the study question which were to be rated as Strongly Agree (1), Agree (2), Not Sure (3), Disagree (4) and Strongly Disagree (5) are also shown below.

Respondents were asked to rate their level of agreement with the above statement. This statement sought to establish the reliability of the ITax system especially during peak seasons or close to the deadline. From the responses given, 10 out of 36 respondents strongly agreed, 11 agreed, 7 were not sure, 5 disagreed and 3 strongly disagreed. From this frequency table results, it can be concluded that ITax system is highly affected by network glitches as 22 of the 36 respondents responded to the affirmative. Only 8 of the respondents disagreed with the statement. 7 were not sure and these are probably those that do not file their returns themselves and so they have not encountered the ITax system. The KRA Itax server experiences network hitches from time to time but this is normally at the worst when it is very close to the deadline. At the beginning of the filing period which is normally in January the traffic on the network is minimal and filing is easy and very fast. However increased bandwidth could solve the network problem once and for all in order to facilitate compliance.

Respondents were asked to state their agreement with the statement 'I-Tax system downtime is worst close to deadlines. This statement sought to establish the dependability of the ITax system throughout the filing period as experienced by ITax users. Out of the 36 respondents, 18 strongly agreed, 11 agreed, 3 were not sure, 2 disagreed and 2 strongly disagreed. From this information we can therefore be conclude that the statement is true as 29 out of the total 36 affirmed the statement as compared to only 4 who disagreed. ITax system is not dependable especially during peak seasons and more specifically close to deadline. This is however made worse by the fact that Kenyans rush to file their returns when it's only days or even hours to the deadline. This causes overcrowding of traffic in the ITax system resulting into network glitches which sometimes last for hours on end inconveniencing taxpayers and sometimes causing them not to file their returns resulting into noncompliance.

VIII. Conclusion of the Study

In conclusion, it was established that majority of Nakuru town taxpayers are willingly registered online with ITax. 77.8% file their own taxes individually at their own convenience. The rate of compliance is relatively high at 88% of tax payers meet their tax obligations before the deadline. Among those that have ever requested for a tax compliance certificate from KRA, 76% were given while 24% were denied. Those denied TCC confirmed that the reason for denial was because of pending penalties from periods of not filing returns. Among the taxpayers that have ever suffered a penalty, 100% of them do not need to be reminded to file their returns anymore. This can be concluded to mean that the fines and penalties have increased the level of tax compliance by deterring noncompliance. Taxpayers are aware that not complying will result in fines and penalties and are therefore more vigilant in ensuring that they meet all their tax obligations on time.

Taxpayers' attitude was found to have a negative correlation with tax compliance. Even though the taxpayer is dissatisfied with the ITax system and its network hitches, the taxpayer has no choice but to comply with tax requirements among them being filing of taxes and meeting other tax obligations on time. A bad attitude does not necessarily result into noncompliance as the taxpayers are aware of the consequences of noncompliance. Majority of taxpayers have attended an ITax training which has been shown to have a positive correlation with compliance and this could be the reason as to why the attitude of tax compliance is not very negative and many have embraced tax compliance.

From analysis of the study data, it can be concluded that ITax system has really reduced the cost of compliance. Taxpayers can file their returns and other tax obligation at the click of button at the convenience of their homes and offices. It can therefore be concluded that the Itax system has helped to reduce the cost of compliance for taxpayers and also for the Tax authority ITax has enabled data to be sent online therefore saving the authority the cost of personnel to handle manual returns, and storage space for manually filed returns. ITax is therefore cost effective for both the tax payer and the tax body. According to the study information, training has a weak positive correlation with tax compliance. This would mean that training might help to increase the level of compliance even if it's by a small margin. However training could be concluded to be an important aspect as majority of the respondents that had received ITax training were tax compliant. Training could therefore be a contributing factor in tax compliance.

IX. Recommendations of the Study

Based on the findings and the analysis of the research done, the recommendation for policy and practice are as follows: Recommendations on increasing tax compliance on the part of KRA should involve focusing on deterrence measure in order to increase tax compliance as taxpayers are afraid of fines and penalties. The high rate of compliance evidenced by the research data collected within the CBD could have been caused by the presence of KRA in the CBD causing businesses and employees to endeavor to meet their tax obligations in order to avoid fines and penalties. KRA should also increase their system bandwidth to accommodate more traffic into their system to solve the issue of inaccessibility to ITax system when it's close to the deadline. The unreliability of the system might deter willing taxpayers from filing their returns as people might not have so much time to spend on just one activity.

In regards to influence of taxpayers attitude towards tax compliance. The government bodies involved in matters of tax administration should increase awareness on the reasons as to why it is important to annually file ones returns. Taxpayers reasoning as to why KRA needs them

to declare how much they have paid yet KRA has all that information could be the hindrance to tax compliance in annual filing. Taxpayers also have a preset mindset that the ITax system is difficult to use because their previous encounters with the system have proved so. KRA therefore need to make their system as user friendly as possible in order to attract more users and improve the attitude of the users.

On the question of influence of ITax on cost of compliance, majority of the taxpayers that were able to do the filing by themselves agreed that indeed ITax has reduced the cost of compliance. However 22% of respondents said that they do not do filing themselves. Most of them cited network glitches whenever they try to do their own filing such as the system denying them access despite imputing the correct password, others said that the system keeps hanging whenever they are about to submit causing frustrations and giving up. All this 22% are still paying cyber business people who still cash in on this major KRA inefficiency, making money from a service that is generally supposed to be free. This makes tax compliance a costly experience for the taxpayer and only those that have something extra to spare end up complying. KRA should therefore offer several desks to help those that are unable to file for themselves instead of telling them to go and get help in the cyber.

Finally on the influence of training on tax compliance, it was established that training has a positive correlation with tax compliance. KRA should therefore increase training in order to create awareness on why filing of returns is important and necessary. Work places visits for KRA teams should be done in order to educate and also train users on tax compliance. Majority of Kenyans that are registered on ITax have access to the internet and KRA should therefore consider internet tutorials on using ITax in order to reach out to the taxpayers at their convenience. Emphasis should be put on the need for a TCC to taxpayers in various circumstances such as while seeking for employment, for tender application, while applying for a loan, etc. This will emphasize to the taxpayers the need to meet their tax obligations on time so that they can remain tax compliant and can get a TCC at any time they need it.

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How To Cite This Article;

Mwihaki, N.L.P., & Nyaegah, J.O. (2018). Influence of I-Tax Project on Tax Return Compliance by Taxpayers at Central Business District Of Nakuru, Kenya. *International Journal of Business Management and Processes (IJBMP)*, 4(1), 01-17.