IMPACT OF TAXATION ON FINANCIAL PERFORMANCE OF SMALL SCALE ENTERPRISES IN UGENYA SUB-COUNTY, SIAYA COUNTY, KENYA

BY

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A THESIS SUBMITTED TO THE BOARD OF POSTGRADUATE STUDIES IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE CONFERMENT OF DEGREE OF MASTER IN BUSINESS ADMINISTRATION (FINANCE OPTION), SCHOOL OF BUSINESS AND ECONOMICS DEPARTMENT OF FINANCE AND ACCOUNTING KISII UNIVERSITY

OCTOBER, 2018
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DEDICATION

This research project is dedicated to my family.
ACKNOWLEDGEMENT

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ABSTRACT

The serious decline in financial performance of small enterprises in recent years had led to a decrease in profit available for tax obligation to the government. The need for small business enterprises to generate more returns from its internal sources has therefore become a matter of extreme urgency which has been linked with taxation of small business enterprise, especially in developing countries. Failure of small business enterprise has grown high, approximately by 80% of the business closed down before the 5th anniversary as a result of tax related issues, coming from multiple taxations to enormous tax burdens. The study aimed to assess the impact of taxation on financial performance of small business enterprises in Ugenya Sub-county, Siaya County in Kenya. To achieve the study aims, the following specific objective was used., To evaluate the impact of level of taxation awareness and knowledge on financial performance of SSEs in Ugenya sub-county., To assess the impact of tax rates on financial performance of SSEs in Ugenya sub-county, To evaluate the impact of tax administration criteria on financial performance of SSEs in Ugenya sub-county., To assess the impact of intended tax purpose on financial performance of SSEs in Ugenya sub-county. Descriptive survey design with both qualitative and quantitative technique was used for the study. Both qualitative and quantitative techniques were collected. The target population was 265 SSBs in Ugenya Sub County. The study used stratified sampling techniques. The study used questionnaire to collect data. Data was analyzed using descriptive statistics, correlations, and linear regressions analysis. Correlation analysis and regression analysis was used to determine the relationship between taxation and financial performance. The study found that business entity is aware of the consequences of failing to pay tax obligations in time. The study found also that taxpayers take low tax rates in Kenyan tax rates in relation to financial performance. The findings indicated that tax administration improve tax payer’s convenience in tax assessment. The Equality of tax administration services provides the largest marginal revenues by reducing tax gaps. The study concluded that tax is a tool for fiscal policy employed by the government to influence the business negatively or positively depending on the nature of business activities in a country. This study recommended that taxpayers should have more Information about taxation not only awareness. There is need to conduct further study on tax awareness/knowledge on financial performance on other sectors.
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>KRA</td>
<td>Kenya Revenue Authority</td>
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<td>PAYE</td>
<td>Pay as You Earn</td>
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<td>SSB</td>
<td>Small Scales Business</td>
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<td>SSE</td>
<td>Small Scale Enterprise</td>
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<td>SME</td>
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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study
The serious decline in financial performance of small enterprises in recent years had led to a
decrease in profit available for tax remitted to the government. The need for small enterprises to
generate more business returns from its internal sources has therefore become a matter of
extreme urgency and importance in taxation (Mead 1998). This need for taxation has underscores
financial performance on all parts of small enterprise and even in the government to look for new
internal sources to get revenue. It has become more aggressive and innovative method of
collecting tax from existing enterprises without the concern of tax purpose (Dennis 2014).

According to Adams (2010) an American businessman, taxation is a burden in which citizens
must bear to sustain their government since the government has certain activities for the benefits
of those in it governs. Though taxation may not be most significant source of revenue to the
government in terms of enterprise size, however, taxation is important raising government
revenue from the point of view of business certainty but not consistency in performance. Despite
the inherent power of government to impose taxes, identifying the means of taxations has been
used to promote fiscal distributions of income, but not identify the problems that militate against
the use of taxations as financial performance in small enterprise.

Tax rates has challenges in business in the country where is it become difficult to identify the
purpose of taxation in hindering in business returns (Yitzhaki2002). In Nigeria, over the years,
firms derive profits from the business which has been low and no physical financial performance
and development actually takes place, thus, the tax administration remains a challenge from non
performing business where tax impact is not being felt in small and medium enterprises. Individual tax persons, fraudulent activities in tax collection due to lack of the understanding of the importance of paying taxes that have some problems that affects financial performance. Therefore, the issue of taxation constitutes the problem of tax awareness, tax administration, tax contributions, tax systems, tax purposes, taxes rates and challenges of tax reforms. Income tax can be regarded as a tool of fiscal policy employed by the government all over the world to influence negatively or positively the nature of economic activities (Okon 2017).

Tax rates had a great impact on economic financial performance and regulations of money circulations. The increase in tax rate affects financial performance of the enterprise (Cioponea 2007). The influence of tax rate was negative to return on assets. According to Zhang (2013) effective tax collection had a significant impact on financial financial performance of firms in terms of profitability of the business. The total returns raised have more positive impact on tax rates in the firm. The influence of taxation rates is positively or negatively related to performance; however, tax imposed by the government affects the rate of tax charged on tax deductions which lead to more taxation than earnings.

Tax is a compulsory levy imposed on individual’s income and consumption of goods by relevant authority. The tax is the charge imposed by the government upon individuals and corporations to raise revenue. Taxation is being employed to achieve many objectives involves raising revenue required to meet the government expenditure, wealth distributions, economic price stability and economic development and financial performance. The effort has been made to examine taxation as a tool for revenue financial performance in the country for structural developments, but the issues relating to taxation as a tool for financial performance and enterprise sustainability have
been not considered (Enahoro, 2012). In America states, taxation policy is supported with aim to encourage tax restructuring to raise revenue for public activities (Fashola, 2009).

Taxation is the key source of revenue that most governments across the world use to provide public services to its citizenry. Due to its importance, tax policy debates, and decision making becomes a critical issue to the public, to enterprises and the economy at large owing to the varied impact that it will have on each of these entities. Thus, the design and performance of the tax system has implications for inequality, and as such it is the role of the government to ensure that it pursues a fair tax system for equitable distribution of income and welfare of the citizens. Simplicity, adequacy, and neutrality are other important benchmarks that ought to be considered while developing, and implementing a tax policy. The subject of taxation has received considerable attention from scholars. Moore (2007) believed that taxation increases incentives for public participation in the political process and creates pressure for more accountability, better governance, and improved efficiency of government spending. In addition, taxation also creates incentives for governments to upgrade their institutions for tax collection and administration and to provide more public services (Moore, 2007).

In recent time, the world economy has developed tremendously and this has been linked with taxation in Small and Medium Scale Enterprises (SSEs), especially in developing countries. Although smaller in size, SSEs are the most important enterprises in the economy due to the fact that when all the individual impacts are aggregated, they surpass that of the larger companies. The social and economic advantages of small and medium scale enterprises cannot be overstated due to lack of tax awareness. Panitchpakdi (2006) viewed SSEs as a source of employment, competition, economic dynamism, and innovation which stimulates the entrepreneurial spirit and the diffusion of skills. Since SSEs enjoy a wider geographical presence than big companies,
SSEs also contribute to better income distribution. Being highly innovative, SSEs lead to the utilization of natural resources which in turn translates to increasing the country’s wealth through higher productivity. Small and medium scale enterprises have undoubtedly improved the standard of living of so many people especially those in the rural areas (Ariyo, 2005).

SSEs play an enormous role in the development of the Kenyan economy especially with regard to creation of tax awareness to uplift the people’s standard of living. However, the financial performance of SBEs financial performance is bedeviled by such challenges as lack of financial resources to pay tax, and unfavorable taxation policies. However, the tax awareness of these small firms is very low. According to the Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN) Nigeria, 80% of SSEs are not aware of taxation. Among the factors responsible for these untimely close-ups are tax related issues, ranging from multiple taxations to enormous tax burdens. In many government tax policies, small and medium scale enterprises are usually viewed and treated in the same light as large corporations. However, their size and nature makes them unique. Therefore, in dealing with small and medium scale enterprises, such unique qualities need to be considered with tax awareness. Issues on how the tax awareness are not effectively be designed to boost the financial performance of SSEs.

The tax rates are charged on business enterprises in Kenya include corporation tax, value added tax, withholding tax among others. The Income Tax Act gives guidance in assessment and computation of taxes. The Kenyan government has made some recommendable efforts to promote development through taxation. The main objective of taxation in Kenya is to mobilize resources needed to meet the aspiration of government. According to Manasseh (2000), a tax is generally referred to as a compulsory levy imposed by government upon assessments of various categories, and is a compulsory and non-refundable contribution imposed by
government for public purposes.

In Kenya, a considerable fraction of the enterprises are sole traders operating small scale business, locally owned and managed by individuals or families, and often with very few employees working at a single location (Kenya Development Bank Report, 1988). Taxation in Kenya is based on system that existed in Britain as it was a British colony. Taxation began in 1900 with the hut tax regulation which imposed a standard charge for every hut or dwelling. During that period, taxation was aimed at raising revenue for the administrative structure imposed by the colonial government but also as a means of encouraging monetary or economic activities (Waweru 2014). All along Kenya Revenue Authority (KRA) administers the collection of taxes since its establishment in 1995.

Just like many other developing countries, there is limited research and scholarly studies about the SME sector in Kenya. The 1999 National Baseline Survey conducted by Central Bureau of Statistics in Kenya. Mead (1998) observed that the health of the economy as a whole has a strong relationship with the health and nature of micro and small enterprise sector. When the state of the macro economy is less favorable, by contrast, the opportunities for profitable employment expansion in SSEs are limited.

SSEs are generally perceived to be the seedbed for indigenous entrepreneurship and generate all the many small investments (Aryeetey & Ahene, 2014). Thus, developing economies like Kenya needs to further the development of its private sector by creating favorable to the financial performance of SSEs, strengthening the factors that lead to business success, and addressing the problems of financial performance of small and medium enterprises (Chu, Kara & Benzing, 2008), so that they can play adequately role of economic transformation. Such role includes
mobilization of domestic savings for investment, substantial contribution to gross domestic product, increased harnessing of local raw materials, employment generation, and significant contribution of poverty reduction efforts through sustainable livelihoods, and enhancement in personnel income, technological development, and export diversification (Smatrakalev, 2006).

An ideal tax policy needs to be adopted in order to ensure voluntary compliance, economic financial performance, and proper utilization of resources rather than suppressing the entrepreneur initiative. Revenue generated from the taxation of individuals and enterprises is an important stream of income for government. Since Small and Medium Enterprises are the profit generating establishments, they are also legally required to pay taxes to meet tax purpose (Micheni2013). However, the important question is, how much tax levy should they pay since SSEs need every little resource at their disposal to meet tax purpose. For this reason, a number of Kenyan SSEs remain in the informal sector by choice as a way of avoiding tax due to the perception that the cost of tax compliance is too high.

Most small business owners or entrepreneurs have an impression that tax administration related issues are complex subjects that should be left to experts; a perception has contributed to the huge gap in information available to the public on tax-related issues. Despite the setting, the cumbersome impacts of taxation has not been considered in other problems militating against financial performance in of small and medium enterprises in Kenya such as tax purpose, tax administrations, awareness and tax rates problem. Thus, the study sought to bridge the information gap on the tax-related issues by critically looking into impact of taxation on financial performance of small business in Ugenya sub-county, Siaya County in Kenya.
1.2 Statement of the Problem
Business financial performance in many small firms in Africa remains in the informal sector since they perceived benefits outweigh the perceived tax costs. Small business enterprises are not growing and the many of them have closed down attributed to decline in number. The concern taxable capacity on business financial performance is a challenge. This is evidenced by SSEs face problems of negative relationship between taxes and the SSEs’ ability to sustain and expand. SSEs are faced with the problem of high tax rates, multiple taxation, complex tax regulations, and lack of proper enlightenment or education about tax related issues.

Armendariz (2015) studied the impact of taxable capacity on financial performance of firms in Philippines. The study aim was to establish the relationship between tax taxpayer’s capacities and financial performance of firms. The study used 76 firms in Massachusetts Asian in Manila. The study used a cross section survey study by correlations analysis. Data was collected by primary data. The study showed that tax capacity affect financial performance of firms. A mixed methodology was used on the impact of taxation on financial performance of SSEs provided more insight and fill the perceived information. The study failed to apply secondary data from financial records on the accessed to information, knowledge of taxation system and understanding of taxes.

Bhattacharya (2011) studied the influence of taxable capacity on financial financial performance of companies in India. The objective of the study was to analyze tax capacity as determinant of financial financial performance of companies in India. The study adopted correlations research design. The study sampled 2 firms in India with 23 respondents issued with the questionnaire. The study adopted descriptive and factor analysis to analyze. Hence, the study did not apply
level of taxation awareness when determining taxable capacity. The current study will adopt correlation analysis to determine level taxation awareness on business financial performance.

1.3 Objectives of the Study

1.3.1 General objective
The purpose of the study was to evaluate the impact of taxable capacity on financial performance of small scale business enterprises in Ugenya Sub-County.

1.3.2 Specific objectives
i. To examine the impact of taxation awareness and knowledge on financial performance of SSEs in Ugenya sub-county.
ii. To determine the impact of tax rates on financial performance of SSEs in Ugenya sub-county.
iii. To find out the impact of tax administration criteria on financial performance of SSEs in Ugenya sub-county.
iv. To assess the impact of intended tax purpose on financial performance of SSEs in Ugenya sub-county.

1.4 Research Questions
i. What is the impact of taxation awareness and knowledge on financial performance of SSEs in Ugenya sub-county?
ii. How do tax rates impact on financial performance of SSEs in Ugenya sub-county?
iii. What is the impact of tax administration criteria on financial performance of SSEs in Ugenyaysub-county?
iv. What is the impact of intended tax purpose on financial performance of SSEs in Ugenya sub-county?

1.5 Significance of the Study
It was anticipated that the study was of great importance to a number of parties. First, to scholars and researchers, the findings of the study would contribute information and knowledge to the existing literature about taxation and financial performance of SSEs. Secondly, the tax authority and government would benefit since the study would provide suggestion that may guide them in adjusting tax policies so that they understand the requirements of small scale enterprises.

1.6 Scope and Justification of the Study
The study covered small scale enterprises in Ugenya Sub-County, Siaya County in Kenya. More specifically, the study aimed to assess the impact of taxation on the financial performance of small scale enterprises and shall thus narrow down to taxation aspects of awareness of the tax payers regarding their tax obligations, the tax rates, tax administration criteria and the intended purpose of the taxes. Geographically, the study was carried out in Ugenya Sub-County, Siaya County, Kenya for ease of data collection since a relatively smaller geographical area was covered.

1.7 Limitations of the Study
The researcher encountered some constraints and barriers during the period of study which included but not limited to, unreturned questionnaires thus making it difficult to obtain 100% return rate at the expected time. Some of the limitations were overcome by observing confidentiality and strict adherence to outlined ethical considerations encouraging respondents to freely give their views without fear of victimization and also ensuring that work is done within
the limitations of constraints of unpredictable budget. This was managed through research budgets.

**1.8 Assumptions of the Study**

The researcher assumed that the respondents were willing to participate in the study, be co-operative, and provide accurate information when responding to the research questions.

**1.9 Operational Definition of Terms**

**Taxation:** The practice by government collecting money from its citizens, organizations or enterprises within its jurisdiction with the intention of paying for public services.

**Taxable capacity:** The level to which a taxpayer; whether an individual, organization or business; has the ability to meet his or her tax obligation with reference to the tax rules of their country.

**Tax rate:** Refers to the tax imposed by the government on an individual’s taxable income or a corporation’s earning. It may also be described as the percentage of income paid as tax.

**Tax information:** Refers to the facts and knowledge about taxes

**Intended Tax purpose:** Refers to the reasons why the government has to impose taxes on a people.

**Financial performance:** Refers to an individual’s way of increasing asset returns
**Tax administration:** It refers to the procedures attached to tax compliance such as registration and filing of returns

**Small and Medium Enterprises:** Refers to entities with full-time employees not exceeding 100 or annual turnover not exceeding Kshs. 150 million

**Medium enterprise:** An enterprise with 10-50 employees

**Small Scale Enterprise:** An enterprise with 1-50 employees
CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical Literature Review

2.1.1 The Allingham and Sandmo Theory (AS Theory)
This theory was advanced by Allingham and Sandmo. Sandmo, (1972) hold that the government deters tax evasion through a sanction arrangement and audits. A tax payer may opt to violate the fiscal laws and evade his or her tax obligations when he or she perceives that the cost of evading tax is too low, believing he or she does that he or she is unlikely to be detected or audited. In addition, tax payers would also evade tax when they perceive the cost of compliance is high. Tax systems and procedures that are involving and cumbersome tend to encourage tax evasion. Tax payers who feel that tax rate is high and punitive are also likely to evade tax. There was a negative correlation between tax evasion, the probability of detection, the degree of punishment and high transactional costs associated with tax laws.

According to Allingham and Sandmo (1972), tax evasion may occur in scenarios where a rational and a moral taxpayer maximize expected utility, which solely depends on income. When caught, the agent must pay penalties imposed on the amount of evaded income. A key comparative static result is that when the tax rate goes up, competing income and substitution impacts might lead to more or less tax compliance. The substitution impact encourages evasion since the marginal benefit of cheating goes up with the tax rate. On the contrary, the income impact tends to suppress evasion since a higher tax rate makes the taxpayer with decreasing absolute risk aversion feel worse-off, and thus decrease risk-taking; thus, the net impact is uncertain.
However, Yitzhaki (2002) indicated that when the penalty is imposed on the amount of evaded taxes, as it is under most current tax laws, the substitution impact vanishes. At the original optimum, the penalty paid on concealed income increases proportionally with the tax rate, and hence, there is no substitution impact. The remaining income impact is responsible for inducing the taxpayer to cheat less. Therefore, the net impact is better compliance. SSEs are prone to tax evasion as they face difficulties in complying with tax laws, meet strict deadlines and keep proper books of accounts. This has an indication that taxation may have an impact on the financial performance of the SSEs.

2.1.2 The Ability-To-Pay Theory
The theory originated from the sixteenth century and was scientifically extended by the Swiss philosopher Jean Jacques Rousseau (1712-1778), the French political economist Jean Baptiste Say (1767-1832), the English economist John Stuart and Mill (1806-1873). The theory states that the taxation should be levied according to an individual’s ability to pay; that is, public expenditure should come from business. Basically, this is indeed the basis of progressive tax - the tax rate increases by the increase of the taxable amount and is the most equitable tax system, and has been widely used in industrialized economics. The usual and most supported justification of ability to pay is on grounds of sacrifice. The payment of taxes is viewed as a deprivation to the taxpayer because he surrenders money to the government which he would have used for personal use.

However, there is no solid approach for the measurement of the equity of sacrifice in this theory, as it can be measured in absolute, proportional or marginal terms. Thus, equal sacrifice can be measured for every taxpayer’s surrenders the same absolute degree of utility obtained from their income or; each taxpayer sacrifices the same proportion of utility obtained from their income or;
each taxpayer gives up the same utility for the last unit of income. This theory proposes that tax policies towards SSEs should be considerate enough to facilitate their profitability, financial performance and survival and thus their compliance. By assessing the impact of taxation on the financial performance and capabilities of SSEs, this study propose appropriate tax policies that will favor the existence of SSEs through the determination of their ability to pay the taxes imposed by the tax authorities.

### 2.1.3 The Tax Morale Theory
The tax morale theory was first advanced by German scholars centered around Gunter Schmolders known as Cologne school of tax psychology. Tax morale can be termed as the individual factor that motivates a person to comply with his or her tax obligations. As a determinant of tax behavior, tax morals aim to explain how and why a tax payer’s morality influences his or her tax behavior. Many studies have found out that tax evasion can be attributed to the tax morale (Mocetti, 2013).

On the one hand, tax payers would be inclined to evade tax when the communities in which they live or operate disapprove of tax evasion and on the other hand, tax payers are more likely to comply with tax obligation if their friends, relatives and acquaintances comply with these obligations. Similarly, tax payers are likely to evade taxes if they feel that other people are getting away with tax evasion. In other words, if a society tolerates tax evasion, such a society would encourage tax evasion (Waweru, 2014). Religious beliefs are a variable in tax evasion as studies have shown that tax payers who have strong religious commitments or beliefs would likely be tax compliant even if they feel that the tax rate is high (Gee, 2006).
In some instances tax payers can feel morally feel justified in evading taxes if they feel that the quality and quantity of public services and goods are unsatisfactory whereas in economies where the provision of public goods and services is satisfactory the evasion rates are low. Tax payers will tend to comply with their tax obligation if they feel that their government is honest, democratic and participatory and also if the tax payers feel they play a meaningful role in governance (Cummings, 2007).

2.2 Empirical Literature Review

2.2.1 Level of Tax Awareness and Knowledge and financial performance
Aoki (2014) studied the relationship between tax awareness and financial performance. The aim of the study was to examine the impact of awareness of taxpayers on financial performance. The findings from the study show that awareness of taxpayers due to tax compliance is not significantly related to financial performance. The study recommended that, rate of tax affect performance in terms of tax collection. The study further showed that high rates of taxation affect financial performance of commercial banks like any other investors have saved more money to earn and vice versa due to high rate of borrowing. This has created gap to examine the impact tax awareness among other sectors which have been increasingly affected by taxation.

Armendariz (2015) studied the impact of taxpayer’s awareness of banks in Philippines. The study aim was to establish the relationship between tax taxpayer’s awareness in Development banks. The study used 76 firms in Massachusetts Asian in Manila. The study used a cross section survey study by correlations analysis. Data was collected by primary data. The study showed that there exist a relationship between tax compliance and taxpayer’s awareness. The level of Tax
Awareness and Knowledge depends on the access to information, knowledge of taxation system and understanding of taxes.

However, Bhattacharya (2011) studied the influence of tax awareness on financial cycles. The objective of the study was to integrate tax compliance as determinant of taxpayer’s awareness in India. The noted that there are no correlations of tax compliance cross movement of capital across company entrepreneurs. The study awareness of tax in the economy affects domestic savings in financial market. The study findings show that there are no statistical significant intervals between compliance and financial performance. According to market conditions of demand and supply are influenced by credit. Taxpayer’s awareness enable the economy to withstand tax control due to inflexible policy, tax instability has no relationship between revenue collection and taxpayer’s awareness of firms.

SenHadji (2012) examined the relationship between tax awareness and business financial performance. The study aim was to examine the impact of tax valuation on taxpayer’s awareness in East Asian countries. The objective of the study was to examine the influence of electronic tax register and taxpayer’s awareness. The study used secondary data. The study used regression analysis and correlation analysis of asset tax prices and financial savings. The study found out that there was no physical tax relationship between electronic tax register on compliance. They also established that there was no optimistic financial performance of tax compliance all over the economy but heavily on compliance in resources deductions, inadequate corporate governance, and dependence on intermediation by under-regulated rates to rapid economic financial performance. The study conditioned that the electronic tax register affect tax price, the money supply is more rigid, and tax imperfect. Through a variance of analysis concluded that rate of taxation affect prices cyclically contributes to inflation of prices prior to financial crisis period.
The study also found out that compliance in property tax is inversely proportional to falling of tax prices. The main implication of compliance is to ensure revenue is collected with reducing cost.

Al-Timid (2011) conducted a study of financing tax on economic financial performance. The study objective was to determine the influence of financing tax on economic financial performance. The study targeted 32057 European firms. The study found out that most firms have external capital deduction than greater financing tax the study findings indicated that every tax is deductible from income determination. However, the study argued that higher financing tax have no impact on price impact, because a higher financing tax of return is a greater than saving with income impact mixed and it is negative for the net profit, because it reduced saving to achieve a given amount in the future targets while positive for a net profit to financing tax because a higher real tax rate represents a loss of wealth. While the level of tax compliance private sector has been declining, the financing of tax in the government expenditure and maintenance is raising, despite this study there is no clear findings used to explain the impact of financing tax on saving performance which may be explained by this study.

Vermeulen (2006) evaluated the response of incentive tax and debt financing. The objective of the study was to analyze the determinants of incentive tax and debt financing. The study found that tax is desired on revenue but it has to increase current income due to high rates of taxation, the added income has to be saved. The study further argued that the decrease in tax incentive had positive statistical significant impact on expected future income; raise current of tax is desired by spending and reduces current saving. The study added that decrease in tax incentive leads to an increase in wealth because some of the extra wealth tax is consumed; Tax reduces savings from a given current income. The study reveals that increase of prices no significant impact on revenue
collection. The increase of expected tax had statistical significant impact on tax returns on savings target. Thus the study leaves a knowledge gap which calls for a study.

According to the World Bank (2014) many traders have expressed that ignorance about taxes imposed on enterprises was highly attributed to poor work being done by the tax authorities leaving traders ignorant about issues like the way taxes are assessed and advantages of paying taxes. There is need to sensitize the public especially business owners about taxation and tax related issues. The sensitization should be done on the various types of taxes that affect the business owners and the rationale that underlie the imposition of taxes (World Bank Survey, 2012).

Standard models assume that tax payers are fully informed of all the aspects that cover the tax reporting processes. However, this is a strong assumption and not the case. For instance, in their research, Andreoni (1998), shows that the degree of information is an important factor on the behavior of tax payers and how it influences tax evasion. Less educated taxpayer’s are less exposed to tax compliance information and are less informed about relevant tax compliance information and thus are more prone to tax evasion. Some tax payers find the complexity of tax information more difficult to understand than others. This complexity may lead to unintentional non-compliance if tax payers have problems maybe in filing of tax returns.

In 1992, Kenya adopted the self-assessment system of paying taxes. The responsibility of declaring and paying the correct taxes is vested on the tax payer. A tax payer is required by law to file a self-assessment return by the end of the six month after year end. After filing the returns, Kenya Revenue Authority (KRA) reviews them and if it has reason to believe that a tax payer did not disclose the correct taxes, it is empowered under the law to carry out an in-depth tax
audit to verify the information disclosed by the tax payer. In such a case, the tax payer goes through a rigorous process that is both time consuming and costly for errors or omissions that would have been avoided had advance tax rulings been in place (Muiru, 2012). Further, enterprises contemplating significant transactions are often faced with the problem of not knowing, with some degree of certainty, what the tax outcome of those transactions would be. This uncertainty could sometimes mean a deal is aborted because an adverse tax treatment could make it commercially non-viable. The situation is further complicated by the complexity of our tax laws and the fact that they are subject to change from time to time (Muiru, 2012).

The way business is conducted has also become more sophisticated due to the geographical spread of enterprises. There has been the emergence of many multinational companies that have set up operations in Kenya in keeping pace with the wave of globalization. The world has become a global village but it is unfortunate that the existing tax laws have not kept pace with this trend. For instance, it is not a wonder to find a company producing goods in one country and selling in another country to benefit from tax advantages in low tax jurisdictions.

The complexity of business transactions makes the application of intricate tax laws that have generally not kept pace particularly problematic. Tax payers often find themselves in difficult situations while making important business decisions as tax laws may not be clear as to the treatment of complex business transactions. The tax legislation does not provide for advance tax rulings though in practice, tax payers seek the Commissioner’s interpretation of various tax laws or tax implications of certain business transactions. Sometimes this is done on a no-name basis in order to retain confidentiality (Muiru, 2012).
Berhan and Jenkins (2015) indicated that Kenya has a complex tax system that makes it expensive for taxpayers to comply with an increased cost of doing. It is costly to implement occasioning losses Kenya’s economy. The more complex a tax system is, the more costly it is for its administration and the more expensive it is for people to comply with it. Taxes administered in Kenya include corporate income tax, personal income tax, Value Added Tax (VAT) and withholding tax. Corporate income tax rate is 30 percent, personal income tax rate ranges between 10 percent and 30 percent, VAT rate is 16 percent and while withholding tax rates begin from 3 percent and depend on income source and whether one is a Kenyan or not (Government of Republic of Kenya, 2012).

2.2.2 Tax Rate and financial performance
Bolboros (2016) studied that impact of tax impact and financial performance in Vintila. The purpose of the study was to examine the impact of income tax rates on organizational performance. The study had adopted survey study as the research design. The research instruments were the use of questionnaires. The data was collected from secondary in 2009 to 2013 on the firm’s earnings. The study used correlation analysis and chi-square to establish the relationship between individual variables in tax rates. The study found out that tax rates are influenced by government demands. Therefore, study only deals with tax rates on revenue collection leaving the tax rate at which tax collected and their impact on financial performance which create a gap for this study.

Tax rates had a great impact on economic financial performance and regulations of money circulations. Progressive tax rates influence tax collection with increase in income tax. Cioponea (2007) conducted a study of public financial theory. The study used regression analysis whereas the findings indicated that the influence of tax rate was negative to return on assets. The similar
study was done by Zhang (2013) who argued that effective tax collection had a significant impact on financial performance of firms in terms of profitability of the business. The total returns raised are more positive impact on tax rates in the firm equity of the company. Further the study indicated that the influence of taxation rates is positively or negatively related to performance, tax imposed by the government affects the rate of interest rates charged on tax deductions which lead to more taxation than earnings.

The impact of tax rates on financial performance was conducted by Noor Halp (2011) who used 345 employees from fuel consumptions in Nigeria. The study used regression analysis to test the findings from tax rates. The study adopted descriptive statistics which found that the coefficient of tax rates are positively and significantly associated with financial performance in Nigeria since there is 5% decrease by probabilities. The tax rate is used as the model of collecting more revenue from different financial practices. The study used correlation analysis which was expressed as relationship between probabilities of F test findings at 0.000 which is less than .005. The study findings indicated that $R^2$ can be categorized by this coefficient of determinants of tax rates is used to verify and describe financial performance of Enterprise in ratio of .45 in which the agreement was met, but the study did not analyze the impact tax rate on financial performance which call for a study.

The impact of taxation and net profit of the firm in Australia by Toader and Dragoti (2014) who found that tax rates had influence on profitability. Also the study found out that tax rates between 2009 and 2013 was not constant even variability was not clear. The data was collected from 26 firms where marketing firms in investment sectors in the country with census sampling was adopted by all respondents. Data collected was analyzed by descriptive statistics where by correlation was employed to examine the connection between variables in the study. The study
indicated that corporation tax rates had impact on financial performance, but even though the analysis was completely established that tax rates had not been clearly indicated on financial performance as it was not fully established in the findings in this study.

Burswen (2015) conducted a study on the three tax reforms proposals on the financial performance of energy firms. The study aims to quantify the impact of tax rate proposals on different economic projects of electricity. The model used to estimate the financial performance of electricity generation facilities to set up an equivalent comparison of tax returns. The study found that the impact of changes to corporate tax rates, raise the levelized cost of energy from all the monetized tax benefits. Changes in depreciation rates and incomes tax rates affect cost of the production and capital costs, and changes in tax and corporate depreciation diminish the effective value of investment and production based tax credits, finally use of tax equity reduces cost of effectiveness of tax incentives. Thus, tax rates have not been addressed on financial performance in small and medium enterprises.

Ali, Sjursen and Michaelsen (2015) studied factors affecting tax compliance attitude in Africa, Evidence from Kenya, Tanzania, Uganda and South Africa. Findings indicated that the impact of corporate incomes tax rates is borne by business owners through decreased profits either by employees through decreased wages or by customers through prices. However, in tax equity finance is the investment transaction where an investor with large tax liabilities makes an equity investment in another business accruing tax credits, investors return comes from realizing those tax credits against their tax liabilities.

It is generally believed that a high tax rate is the main cause dismal performance and non-compliance by SSEs. Incentives to evade tax depend on the marginal rates of taxation because
these govern the gains from evasion as a sum of the sum evaded (Kaldor, 1956). One major tax evasion is the high personal income tax rates which tend to lead tax payers to evade tax. Too many and complicated rules and regulations imposed by the government tend to lead to tax evasion. Small scale enterprises find it generally difficult and often not profitable to do business legally.

The heavy taxation is also a subject of worry not only in developed countries like USA but also in Kenya and other less industrialized countries in Africa and Latin America. For instance, taxes in Kenya confront the large manufacturing sector in different shapes and shades example: import duties, export & excise duties, sales and VAT, withholdings and income taxes, and PAYE etc. (KRA, 2011). The high levels of taxation of SSEs in Africa and in Kenya in particular, warrants attention on accelerated research areas aimed at addressing the overall impacts of taxation on SSEs (Osambo, 2009). By studying taxation behavior in five different countries (USA, Gambia, Nigeria, South Africa and Kenya), Derwent (2000) concluded that increased tax burden is a major threat. The results show that the increase in tax rates leads to higher production, distribution and selling costs which lead to higher prices and as a result consumers change their buying behavior.

People react to the higher prices by buying less of the product. When sales fall, some manufacturers cut back on production and some workers may lose their jobs. The productive resources i.e. land; capital, labour and entrepreneurship are allocated to other industries or go unused. For instance when the government increases taxes on items such as beer and cigarettes for the purpose of realizing revenue and discouraging their consumption people tend to buy local brews.
Whenever prices increase due to increase in tax rates; prices of goods and service increase and there is a drop in the consumption rate and a decrease in sales volumes which leads to retarded financial performance of SSEs. Tax payment is among the outflows of cash from the business which reduce the purchasing power of an enterprise. This is due to the fact that a large amount of cash collected is used to pay taxes rather than to expand the business. The study showed that the purchasing power of an enterprise drops immediately an organization pays taxes.

Some studies suggest that high tax rates foster evasion. The intuition is that high tax rates increase the tax burden and, hence, lower the disposable income of the taxpayer (Chipeta, 2002). However, the level of the tax rate may not be the only factor influencing people’s decision about paying taxes. In fact, the structure of the overall tax system has an impact as well. If, for example, the tax rate on corporate profits is relatively low, but individuals are facing a high tax rate on their personal income, they may perceive their personal tax burden as unfair and choose to declare only a part of their income. Similarly, large companies can often more easily take advantage of tax loopholes, thereby contributing to the perceived unfairness of the system. Tax rates and the overall structure of the tax system, therefore, have a significant impact on the performance of SSEs.

2.2.3 Tax Administration and Financial performance
Chandler (2013) the consequences of poor tax administration: collections, financial performance and corruption. The study was conducted to cater for scholar work at George state university. The study examines the aspects of tax administration impact on financial performance. The data was collected from 79 counties with macroeconomic variables. The study finds that tax administration is complex leading to unintentional tax evasion and significant gap on tax gap. Further, tax reform reduces tax code complexity and increase the equality of tax administration
services providing the largest marginal revenues in reducing tax gaps in tax enforcement measures and revenues. The tax authority provides greater assistance to tax payers creating favorable conditions for tax enforcement measures. Thus, the study did not examine the impact of tax administration such as the issue of corruption, tax enforcement measures, tax evasions and financial performance which creates financial performance gap.

Alm (2016) studied the tax administration in relations cultural differences and tax morale in the United States and in Europe. The study finds that an important trend in tax reforms has been a shift from an enforcement paradigm to a service paradigm. The paradigm emphasizes on criminal aspects of tax evasion represented in tax administration measures. There is increased enforcement measures and stiff penalties for tax evasion. Tax authorities focus on helping taxpayer accurately file taxes by providing information needed. Though, the study focuses on these changes in tax administration they are still gap which suggest that the service paradigm does not analyze financial performance.

Richard Bird (2014) examined the impact of administrative dimension of tax reforms in Asian pacific tax bulletin. The study found that tax administration is important in valued added tax to increase financial performance; however, VAT is not only tax administered and thus, the generalization of tax administration on financial performance is problematic, the VAT has grown a major source of revenue for the government. It also found that popularity of the VAT lies in many perceived benefits that include vast revenue, enhanced compliance and administration attributes on economic efficiency. In spite of this finding, tax administration to VAT in enterprise has exerted pressures to increase revenue which have recently quickened policy makers to broaden tax base for the idea to meet government obligations. Thus, adequate or
informed tax administration in relations to financial performance of small and medium enterprise addressed.

Aguolu (2014) studied the impact of tax administration and financial performance in Nigeria. The research aims to investigate the impacts of tax administration and financial performance in Nigeria. The study found that though administration of tax may not be the most important sources of revenue to the government. This was argued by Argreen (2014) who examined the impact of tax administration on revenue generation. The study noted that inherent power of the government to impose taxes is assured at all times of its tax revenue no matter the tax. The government is fully to modernize and automate all tax systems to improve tax payers convenience in tax assessment and payment process while at the same time entrenching effective and modern human resources management practices in tax authorities. Thus, financial performance gaps were not addressed in relation taxation to small and medium enterprises.

Abertbach and Christensen (2017) investigated the challenges of modernizing tax administration in putting customers first in coercive public organization in Uganda Public policy and administration. The study found that effective amnesty is one that is given to launch a new era of tough tax enforcement. Facilitating compliance involves elements of improving services to taxpayers and third party agents by providing clear instructions, understandable forms and assistance in information needs. Monitoring compliance needs establishment of taxpayers’ current accounts and management of tax systems. This is covering ultimate taxpayers and their third party agents involved in tax system and appropriate procedures to detect non-filers and delayed payments. Berhan and Jenkins (2015) concluded that improving compliance needs a judicious mix of measures and additional measures to determine non –compliance like establishing a reasonable risk of detection and effective application of penalties.
Biber (2010) carried a study of revenue administration on taxpayer audit development of effective plans technical guidance note, fiscal affairs department. The results indicated that tax administration in many developing countries appears to be that all taxpayers are potential criminals and that subjecting to them to taxation is fundamentally a matter of identifying and controlling and catching those cheating. There is no modern tax systems can work on fear alone, problems of tax enforcement cannot be solved simply by calling in the tax police. On contrary to the study of Berhan (2015) there are many benefits from observing taxpayers more as clients than criminals. Taxpayers services emphasizes on reducing taxpayers uncertainty by describing some of the recent services and communicate clearly what the law is instead of changing it every year and taking compliance cost designing legal and administrative procedures. There is a problem in knowing how best to deal with taxation.

Tax administration refers to the identification of the tax payer, assessment of tax payable, collection of taxes and enforcement of tax liability. It may also refer to a structure or procedure of identification of potential taxpayer, collection and laws governing taxation. Bahl(1988) asserts that much attention should be paid to critical aspects of tax administration, training, procedures, staffing, collection and use of information. The weaknesses in tax administration are mainly caused by lack of relevant information about the tax payer, continued criticism of the tax and its structure. The tax structure should be simple in order to avoid tax evasion.

Argreen (2014) noted that lack of transparency and accountability in the use of public funds contributes to public distrust both with respect to the tax system as well as the government. This, in turn, increases the willingness to evade taxes. If due to high levels of corruption, citizens cannot be certain whether their paid taxes are used to finance public goods and services their
willingness to pay suffers and it becomes more likely that they evade their tax liabilities. A taxpayer might consider evading taxes if the cost of bribing a tax auditor is lower than the potential benefit from tax evasion. Strong fiscal courts are essential to protect taxpayer’s rights and safeguard them from arbitrariness.

If the legal system does not operate in accordance with the rule of law, citizens have to fear arbitrariness, discrimination, unequal attendance in court. The lack of rule of law reduces transparency of public action and fosters distrust among citizens and as a result, citizens may not be willing to finance the state through taxes, and decide to evade these liabilities (Kirchler et al., 2007). Often, tax administration and collection by ministries of finance are considered inefficient and suffering from corruption and high compliance costs. Semi-autonomous revenue authorities have been pursued in many developing countries mostly as part of comprehensive tax administration reforms. Additionally, unclear responsibilities regarding the collection and administration of specific types of taxes by different institutions can lead to inefficiencies and tax losses and require a reorganization of the tax administration (Moore, 2009).

2.2.4 Tax Purpose and Financial performance
Martinez (2011) studied the importance of tax to government revenue. The study finds that any shortfall among the expected revenue collected may adversely affected by Government Policies and Regulations in business operations. The tax gap between the expected and actual revenue varies widely from business to business. However, the study estimated compliance ratios in actual revenue collected and divided by tax rates in private consumptions. Abiola (2012) also found that taxation is a tool for revenue generations in the country governments ‘federal, state and local government for structural economic development in United States. However, the issue relating to taxation as tool for revenue collection, wealth creation and employment rates, role of
taxation in economic development and social sustainability in government revenue generations.

The study failed to address tax purpose on financial performance in business.

Soyode (2016) examined the study on taxation principles and practices in Ibadan. The study aims to examine the taxation principles and practices. The results showed that tax is regarded as a tool of fiscal policy employed by the government in the country to influence negatively or positively the type of economic activities. Tax is used in the economy in order to achieve the desired government objectives such as to increase the rate of economic development and per capital income which leads to improved standard of living by citizens. Despite, the study has concentrated on tax to meet government expenditure and wealth creation through price stability but not in the firm’s financial performance.

Caliendo (2018) conducted a study of the practical guidance for tax implementation of propensity in revenue matching. Finding showed that tax inspects controls for the audit probabilities faced by the business. Since is most likely endogenous to tax evasion, it is not the primary focus of investigations and biases generated by tax use which do not affects the findings regarding the corruption on revenue collection. The use of tax theoretical model the firm income and costs of tax evasion represented in empirical model by natural log of business sales and the view of taxes becoming an obstacle to do business. The firm’s sale is directly measured but does not measure cost directly in the view of taxes in financial performance as an obstacle. The study concluded that costs is typically associated with taxes are the salaries and lawyer enabling tax evasion or the bank fees accompanying an account in which tax benefits is hidden.

Olotu (2012) noted that how government raises revenue may not only affect policy outcomes but also reflects economic and political forces. Tax costs are associated with collecting taxes relevant in the context. The payment of 10% of tax returns or less generates 90% of revenue. However,
the remaining 90% of tax returns may account for 80% of the associated tax administrative and compliance costs where tax costs is political reasons, hence most countries have reduced the use of self-assessment in income taxes by employing pre-populated tax returns. This was concluded by Coleman (2017) who stated that Australians would rather file tax returns that are generated refunds rather than have less tax withheld in the first place to mobilize resources utilizations and wealth redistributions.

Moore (2007) believes that taxation increases incentives for public participation in the political process and creates pressure for more accountability, better governance, and improved efficiency of government spending. In addition, taxation also creates incentives for governments to upgrade their institutions for tax collection and administration and to provide more public services. However, Feld and Frey (2007) stated that tax compliance is a complicated interaction between taxpayers and the government in establishing a fair and reciprocal exchange, if taxes paid and public services provided by government are regarded as equitable, taxpayers may be inclined to comply with tax laws and this has a significant positive impact on tax compliance. Torgler and Schneider (2008) noted that the taxpayers indeed are willing to pay taxes even though they were not given the exact value of public goods, as compared to the taxes they have paid, if they think the political process as fair and lawful.

The involvement of taxpayers in a political process has a positive influence on tax compliance and taxpayers with direct democratic rights are found to be more compliant (Pommerehne, Hart, & Frey, 1994; Torgler, 2005; Torgler & Schneider, 2007). The reverse is true as evidenced in transition countries such as Russia, Belarus and Latvia after the collapse of communism because of the institutional crisis, where the citizens’ tax morale is lower, compared to non-transition countries such as Bulgaria and Croatia (Frey & Torgler, 2007). Tax compliance is also influenced
substantially by trust in government and legal systems (e.g. Frey, 2003; Torgler, 2003) and this trust can only be gained if the government can assure that taxpayers’ expectations are fulfilled (Hardin, 1998). The taxpayers’ opinion on the tax system and the intended purpose of tax either as a fair or an unfair system, is also identified as influencing tax compliance behavior, as evidenced in a number of research studies (Alm, Jackson, & McKee, 1993; Murphy, 2003). Voluntary citizens are more likely to voluntarily live up to their tax obligations if the government achieves the intended purpose of taxes remitted.

2.3 Taxation and Performance
Agoulu (2014) sees taxation as the compulsory levy by the government by its agencies on income, salaries, profits, dividend, discounts, interests and royalties. He adds that tax is levied against company’s profits, capital gain, transfers while Ojo (2017) argued that taxation is a concept or science of imposing tax on citizens. According to him, tax is itself a compulsory levy imposed and requires to be paid every citizen. The imposition of tax is expected to generate income which shall be used in the provision of social amenities (Dennis 2014).

Adeyemi (2012) observes taxation as a burden in which every person must bear to sustain the government functions. Income tax can be considered as a tool for fiscal policy employed by the government in all business. The main goal of taxation is to develop countries economic development and increase rate of economic financial performance and thus per capita income leads to high standard of living. Taxation can be progressive tax rate employed to attain equitable distribution of resources. The government can increase tax rates, or decrease capital allowances rates given in lieu of depression to promote or discourage certain business or tax may give tax holidays to certain firms (Syndelle 2009). The taxation in terms of income of tax can be employed as an agent of social change if used as creative force in the economic development.
Abiola (2012) posited that there is an urgent need for the government to state clearly the basic objective of imposing tax system and the relationship between tax objectives. The can help to provide tax administrator a sense of making directions at when taxpayers can see clear reason for paying tax when is due. The tax collection approaches applied by tax authorities must be corruption free in embezzlement. These must be ensured for the government to be able to collect revenue or reach many taxpayers for the desired target. Taxation can be administered to have been utilized to encourage taxpayers to pay taxes through convenience assessment.

The concept of financial performance has been explained differently by different scholars. Micheni (2013) describes financial performance as the subjective measure of how well a firm can use its asset to generate revenue. He also adds that financial performance is a general measure of the firms’ financial obligation over a given period. It is also used to compare related firms across the industry or compare the same industries across sectors.

The Adams (2010) identified three commonly employed measure of financial performance by Jensen measure. Jensen measure is the ratio of business portfolio’ returns less expected return as determined by capital asset pricing model. The model is used to describe the relationship between risk and pricing of assets. It suggests that only risk that are taxed and priced by investors is at risk that cannot diversify. According to Wanjiku (2014), financial performance is the single most important determinant in evaluating the financial performance potential, earning capacity and financial strength. She referred dictionary to define financial performance as a measuring results of the firm financial policies and operations in terms of monetary and reflect on return on investment, return on equity, and return on investment and liquidity levels.

The study has used financial performance in taxation of small and medium enterprise, since it serves as a measure of financial management to meet objective of the enterprise. It is also serves
a mechanism for motivation and resource control in the organization. Different scholars have measured financial performance differently. Kumar (2011) says that profitability is a good measure of financial performance in business enterprises. However, none of them has done the study relating to taxation which creates financial performance gaps in taxation of small and medium enterprise. The firm anticipates either on a positive or negative relationship of taxation and financial performance. Thus, taxation is considered as a critical factor to increase financial performance for the success of small and medium enterprise.

GEM (2014) defined performance as the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it. However, performance seems to be conceptualized, operationalized, and measured in different ways thus making cross-comparison difficult. Cooper (1992) examined various factors which influence business performance and enlists factors such as experience, education, and occupation of parents, gender, race, age, and entrepreneurial goals. On the other hand, Lerner and Hisrich (1997) conducted a study on Israeli women entrepreneurs and categorize the factors that affect their performance into five perspectives, that is, motivations and goals, social learning theory (entrepreneurial socialization), network affiliation (contacts and membership in organizations); human capital (level of education, skills) and environmental influences (location, sectored participation, and socio-political variables).

Thibault et al., (2002) suggested that factors influencing business performance could be attributed to personal factors such as demographic variable and business factors such as amount of financing, use of technology, age of business, operating location, business structure and number of full-time employees as important factors in examining the performance as small scale business operators. The most comprehensive summary of factors influencing performance was
noted in a literature review by Theo et al., (2007) to include: individual characteristics, parental influence, business motivation and goals, business strategies, goals and motives, networking and entrepreneurial orientation.

Firm is defined differently by various scholars. Porter (1980) defined firm performance as the above-average rate of return sustained over a period of time. Based on this definition, firm performance may refer to the success level of the firm in the market within which it operates. It follows then that firm performance can be said to be the ability of a firm to realize and achieve a commendable profit. Regardless of the size of the firm, performance measurement and evaluation is a key aspect to monitor the success or failure of the firm.

This also enables the firm to take appropriate actions to ensure competitive advantage (Turkman, 2009). Firm performance can be measured through two major ways; one, using the financial measures that include profit before tax and turnover and secondly, using the non-financial measures which entail customers’ satisfaction, customer referral rates, delivery time and employees turnover. Even though most SSEs may opt for a combination of both measures, this study shall be limited to the financial measures. Financial performance is the process of measuring the results of a firm’s policies and operations in monetary terms. Metcalf and Titard (1976) suggested that financial performance of a firm can be measured using such variables as profitability and liquidity.

Profitability measures the extent to which a business generates profits from the factors of production and can be determined through Return on Assets (ROA), Return on Equity (ROE), operating profit margin and Net Income. On the other hand, liquidity measures the ability of the firm to meet its financial obligations as they become due without disrupting the owner equity.
Liquidity can be measured using the ration of current to current liabilities. Jacobs (2001) defined financial performance as the art and science of managing money, and at large the finances of a firm in relation to the process, institution, markets, and instruments involved with the transfer of money. Financial management is an area that requires knowledge, skills, and experience in order to maximize profits, sales, capture a particular market share, improve survival chances of the firm, and maximize wealth (Jacobs, 2001).

According to Haber and Reichel (2005), financial performance measurement generally looks at the firm’s financial ratios such as liquidity ratios, activity ratios, profitability ratios and debt ratios. Liquidity is a firm’s ability to pay its debts and meet its tax obligations when they are due and may also refer to the solvency of the firm’s total financial position. Activity ratios pertain to the measure of how fast various accounts can be converted into money or sales while debt ratios is the measure of the extent of debt in relation to a firms total assets. The various criteria for measuring profit relate the firm’s enterprises earnings to sales, assets, owner’s equity and share value (Haber & Reichel, 2005).

Gates (2010) posits that a business is set up to thrive on profits since profit is the only motivator for an entrepreneur. This points out that a business with no profits is not worth running. There is the desire and pursuit of higher revenue of any given business operation. Enterprises operate with the primary mission to increase value of their capital and thus make profits (Goesel, 2010). This study sets to ascertain how taxation of small scale business enterprises impact on their financial performance in terms of profitability, liquidity, activity ratios and debt ratios.

This study borrows heavily from existing research literature that is increasing every new day. It is influenced by the understated theories which have been put across by various scholars.
2.4 Summary of Research Gaps
Several conclusions can be drawn from the literature herein. First, the primary goal of setting up a business enterprise is to make profits (Goesel, 2010) and a business should thrive on these profits (Gates, 2010) and thus a business without profits isn’t worth running. Several factors both internal and external have been attributed to either the success or failure of a business enterprise. From the literature herein, several studies had been carried out by several various researchers to shed light on what affects profitability. However, it was of concern that little has been done to ascertain the impact of taxation on the financial performance of small scale business enterprises - a knowledge gap that the study objectively attempted to fill.

The oversight culture of regarding SSBs as insignificant can no longer be justified (Goesel, 2010) since SSBs require a favorable regulatory environment in which to conduct business. SSBs and taxation are not mutually exclusive by any means. Previous studies on the impact of taxation on financial performance had majorly targeted large companies and corporate organizations, yet Tomlin (2008) argued that SSBs and SSEs sacrifice funds to pay taxes, which could otherwise be invested in business financial performance.

2.5 Conceptual Framework
The study conceptualized that the factors under discussion have a direct impact on financial performance of SSEs in Ugenya Sub-county, Siaya County, Kenya. The relationship between the dependent and the independent variables was illustrated in the conceptual framework presented in figure 2.1.
As conceptualized in Figure 2.1, taxation was the independent variable whose aspects of level of tax awareness or knowledge, tax rate, tax administration and tax purpose impacted on performance of SSEs (the dependent variable) as evidenced in the level of profitability, liquidity, accountability, reporting, and product diversification of SSEs. The living standard of the SSE owners might also be used as an indicator of the impact of taxation on the financial performance.
of SSEs. The government policies and regulations played the intermediary role between taxation and performance.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design
The study utilized a descriptive survey design of all the SSBs in Ugenya, Siaya County. Descriptive survey design was a research design involved in either identifying the characteristics of an observed phenomenon or exploring possible correlations among two or more phenomena. The study majorly aimed at providing detailed data on the subject under study for the entire population under investigation. A survey gave a description of some pertinent characteristics of the population as well as allow for inferences of cause and impact. A survey focused on a set of firms thus the SSEs in Ugenya as per this study.

Survey designs were particularly of great value. For instance when one was seeking help on identifying the impact of taxation on performance of SSEs in Ugenya and in which case it was difficult to understand the individual impact on one given case without considering the relationships with each other (Cooper & Schindler, 2000). A descriptive survey design thus, enabled the researcher to collect in depth data on the population being studied and allowed the researcher to be more focused in giving specific and relevant recommendations.

3.2 Study Area
The reason for selecting Ugenya sub-county for the study was due to its proximity to the research and home sub-county to the researcher. The sample for the study was drawn from all the SSBs in Ugenya sub-county. Since the accuracy of the sample depended mostly on the sampling frame, the researcher ensured a high degree of correlation between the sampling frame and the sample population. The sample size was an important feature of the study in which the goal was to make
inferences about the population from a sample. In practice, the sample size used was determined based on the expense of data collection, and the need to have sufficient statistical power (Morgan, 2001). Sample size was important primarily because of its impact on statistical power - the probability that a statistical test indicated a significant difference when there truly is one (Morgan, 2001).

3.3 Target Population
The population of the study consisted of all Small Scale Enterprises in Ugenya. A total of 265 SSBs within Ugenya were targeted for the study.

3.4 Sampling and Sampling Technique
For the study, every stratum was taken from each of the stratum key sectors of Agriculture, manufacturing, Transport, Tourism, and Telecommunications was picked to form the sample population. The study adopted stratified sampling technique where firms were sampled in groups of five in every key sector. Every fifth firm in every cluster was selected and information was gathered on the same firms. The study, therefore, consisted of 265 SSEs which formed the sample frame. This sampling method was deemed necessary in order to reduce the average cost of the questionnaire and gave more accurate results owing to the kind of research carried out.

3.4.1 Sampling Procedure
Stratified sampling technique was used to sample the respondents according to their categories in SSEs. According to Mugenda and Mugenda (2003), a sample size can be selected between 10% and 30% of the total target populations. The study adopted a sample design of 20% of the target population. Therefore, the sample size of the study was 53 managers of SSEs, one manager from each of the firms were selected purposely to provide adequate responses on the impact of taxable
capacity on performance of SSEs. These managers were preferred because they were professionally qualified to provide correct responses to the questionnaire.

3.4.2 Sample size
The sample frame that was adopted for the study is as summarized in Table 3.1.

Table 3.1: Sampling Frame

<table>
<thead>
<tr>
<th>Sector</th>
<th>Target Population</th>
<th>Sample size</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>90</td>
<td>18</td>
<td>34</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>50</td>
<td>10</td>
<td>19</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>60</td>
<td>12</td>
<td>23</td>
</tr>
<tr>
<td>Transport</td>
<td>65</td>
<td>13</td>
<td>24</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>265</strong></td>
<td><strong>53</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Author (2017)*

3.5 Data Collection Procedure
Primary data was collected using questionnaires distributed to those targeted in the study. The questionnaires consisted of closed-ended questions that covered all the issues relating to the impact of taxation on performance of SSEs in Ugenya sub-county. The researcher personally administered the questionnaires to the respondents, one from each of the sampled sectors, purposefully selected and asked to fill the questionnaires. Secondary data was gathered from library materials, impact of taxation on business performance journals and reports, media
publications and various internet search engines covering the impact of taxation on performance of SSEs.

3.5.1 Validity of Research Instrument
Validity is the degree to which an instrument measures what it is supposed to measure (Kothari, 2014). Therefore, the term refers to the extent to which an instrument asks the right questions in terms of accuracy. The content validity of the research instrument for this study was determined through piloting, where the responses of the subjects were checked against the research objectives. For a research instrument to be considered valid, the content selected and included in the questionnaire had to be relevant to the variable investigated. The researcher performed the pilot test with a randomly selected sample. Content validity of the instrument was also tested using a research expert’s opinion; the research supervisor. The research expert independently judged the validity of the items in the questionnaire in relation to research objectives.

3.5.2 Reliability of Research Instrument
Reliability of an instrument is the measure of the degree to which a research instrument yields consistent results or data after repeated trials (Cooper, 2003). To test the reliability of the questionnaire as a research instrument, a test-retest technique was employed in which questionnaires were administered to a group of SSBs with similar characteristics as the actual sample size was not included in the final study. The test was repeated after two weeks in order to establish the extent to which the questionnaire elicited the same responses every time it was administered.
3.6 Data Analysis
The data collected was analyzed using descriptive statistics, correlations, and linear regression analyses. This was achieved through the use of statistical packages for social scientist (SPSS) and MS Excel to generate frequency distributions and percentages that assisted in answering the research questions as well as explained the nature and strength of associations between the dependent and independent variables.

Descriptive statistics were used to meaningfully describe measurement using statistics, the output were presented in form of tables and figures; Multivariate regression analysis which resulted in a prediction equation that described the relationship between the dependent variables and independent variables. Completed questionnaires were edited for completeness and consistency. The analysis attempted to answer research questions and explained the natural and strength of associated between the independent and dependent variables.

Linear regression mode was used to investigate the relationship between the dependent variable (financial performance) and independent variables (taxation). The regression equation was presented as shown:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \]

Where;

- \( Y \) = Business Financial performance
- \( X_1 \) = Taxation awareness
- \( X_2 \) = Tax administration
- \( X_3 \) = Tax purpose
X4= tax rates, $\beta_0, \beta_1, \beta_2, \beta_3$ and $\beta_4$ are the Beta coefficients, $\varepsilon =$ Error term

Dependent variable is the financial performance. This was measured by Return on asset while independent variables were taxation, Taxation awareness which was measured with available information about tax, tax administration which was measured as reducing tax gaps and assistance to tax payers, tax purpose and tax rates was measured by the aspect of response opinion in the questionnaire,

3.7 Analysis of Variance (ANOVA)
The use of correlation and multiple regression analysis were used to test the level significance in the data. This assisted the researcher to show serial correlations. Multiple regressions were conducted and ANOVA by F test shows the goodness of fitness on the model to predict variation financial performance. The regression coefficient indicates how every variable influence financial performance. The findings of the study were explained at 5% level of significance, where both p-value and T-test were explained.

3.8 Ethical Considerations
The researcher obtained letter of introduction from Kisii university school of business and economics after proposal defense. Then this enabled the researcher to sought permit from NACOSTI before undertaking data collection from the field. Objectives of the research were explained and made known to the respondents so as to solicit their informed consent. High level of confidentiality on the information provided by respondents through the questionnaires was maintained. The researcher ensured there was the plagiarism report at less than 20% through turn-it-in system as required by university standards.
CHAPTER FOUR
DATA ANALYSIS AND INTERPRETATIONS

4.1 Response Rate
The overall response rate was 66 percent as per the distribution shown below.

The researcher distributed 53 questionnaires to the respondents out of which only 35 questionnaires were filled and returned for data analysis. This indicated 66% response rate, which was justifiable for data analysis. The response rate was acceptable according to Kothari (2014) which states that a response rate of above 50% was good and concurred with Mugenda (2003) that response rate of above 60% percent as very adequate for analysis and presentations of the findings.

Table 4.1 Response Rate

<table>
<thead>
<tr>
<th></th>
<th>Target</th>
<th>Response</th>
<th>Response rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>18</td>
<td>15</td>
<td>43</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>10</td>
<td>7</td>
<td>20</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>12</td>
<td>6</td>
<td>17</td>
</tr>
<tr>
<td>Transport</td>
<td>13</td>
<td>7</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>53</td>
<td>35</td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Research Findings, 2017*

4.2 General Information

4.2.1 Gender Characteristics of the Respondents
The study sought to find out how gender of the respondents financial performance. Both male and female gave their response as shown in table 4.2.
The results show that 23(65.7%) of the respondents were male and 11(34.3%) were female. This implies that the majority of the respondents were male; however, the percentage was close hence there was no bias in terms of gender of respondents.

Table 4.2 Gender Characteristics of the Respondents

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>23</td>
<td>65.7</td>
</tr>
<tr>
<td>Female</td>
<td>12</td>
<td>34.3</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Researcher (2018)

4.2.2 Age of Respondents
The study sought to find out how the influence of age of respondents affects financial performance. The table 4.3 presents the results.

Table 4.3 Age of Respondents

<table>
<thead>
<tr>
<th>Age Range</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>below 25 years</td>
<td>3</td>
<td>8.6</td>
</tr>
<tr>
<td>26 to 30</td>
<td>17</td>
<td>48.6</td>
</tr>
<tr>
<td>31 to 35</td>
<td>10</td>
<td>28.6</td>
</tr>
<tr>
<td>36 to 40</td>
<td>5</td>
<td>14.3</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Researcher (2018)

The results indicated the age of respondents as shown in the table 4.3. From the table 48.6% of the respondents were below the age of 30 years, 28.6% of the respondents were between the age
brackets of 31-35 years, 14.3% were between the age bracket of 36 -40 years and 8.6% were aged below 25 years. This implies that the majority of the respondent has engaged the most productive employees aged at most the age of 40 years.

### 4.2.3 Level of Education
The study aimed to find out the academic qualifications of the respondents. The distributions were as shown in the table 4.4.4. Most of the respondents had a Secondary level qualification that is 42.9%, 22.9% had Diploma qualification, 20.0% had a degree qualification, 8.6% had primary level of qualifications and 5.7% had Informal education qualification.

**Table 4.4. Level of Education**

<table>
<thead>
<tr>
<th>Qualification</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal education</td>
<td>2</td>
<td>5.7</td>
</tr>
<tr>
<td>Primary level</td>
<td>3</td>
<td>8.6</td>
</tr>
<tr>
<td>Secondary level</td>
<td>15</td>
<td>42.9</td>
</tr>
<tr>
<td>Diploma holders</td>
<td>8</td>
<td>22.9</td>
</tr>
<tr>
<td>Degree</td>
<td>7</td>
<td>20.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>35</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Researcher (2018)

This implied that most employees went to higher learning institutions. This also indicated that taxation impacts can be influenced by level of education on perception.

### 4.2.4 Years of Experience in Business
The study sought to determine the years of experience on how long they worked in the business.
Table 4.5 Years of Experience in Business

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>4</td>
<td>11.4</td>
</tr>
<tr>
<td>2-3 years</td>
<td>12</td>
<td>34.3</td>
</tr>
<tr>
<td>4-5 years</td>
<td>10</td>
<td>28.6</td>
</tr>
<tr>
<td>4.00</td>
<td>7</td>
<td>20.0</td>
</tr>
<tr>
<td>Over 5 years</td>
<td>2</td>
<td>5.7</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Researcher (2018)

The respondents were required to indicate the number of years they have worked for the county government. Table 4.5 shows that 34.3% of the respondents have worked for 2-3 years, 28.6% of the respondents have worked for 4-5 years, 20.0% have worked for duration of 4 years. This shows that most of the respondents that are 34.3% have worked for the business for less than 3 years.

4.2.5 The Nature of the Business

The study sought to identify the Nature of the business as presented in table 4.5.
Table 4.6. The Nature of the Business

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>16</td>
<td>45.7</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>6</td>
<td>17.1</td>
</tr>
<tr>
<td>Telecommunication</td>
<td>8</td>
<td>22.9</td>
</tr>
<tr>
<td>Transport</td>
<td>5</td>
<td>14.3</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Researcher (2018)

The study finding show that 45.7% of the enterprises were from agriculture enterprises, 22.9% of the business was from Telecommunication enterprises, 17.1 % of the enterprises were from Manufacturing, and 14.3% of the enterprises were from Transport. The study show that the majority of enterprises were from agriculture.

4.3 Descriptive Analysis

4.3.1 Tax Awareness on Financial performance

The study sought to examine the impact of tax awareness on financial performance.

Table 4.7 presents the descriptive statistics in terms of the number of observations, mean and standard deviation.

The study shows that as a business entity are you aware of the consequences of failing to meet your tax obligations in time had a mean of 3.5429 and standard deviation 1.17180, does lack of tax information affect your business’ tax compliance had a mean of 3.2571 and standard deviation 1.42133, Is Information about taxes in Kenya readily available had a mean of 3.2000
and standard deviations of 1.27879, As a business entity, are you able to correctly calculate the tax amount payable based on available the information had a mean of 3.000 and standard deviation of 1.39326 and As a business entity, are you aware of your tax obligation had a mean of 2.800 with a standard deviation of 1.3016.

Table 4.7 Tax Awareness on Financial performance

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is Information about taxes in Kenya readily available</td>
<td>35</td>
<td>3.2000</td>
<td>1.27879</td>
</tr>
<tr>
<td>As a business entity, are you aware of your tax obligation</td>
<td>35</td>
<td>2.800</td>
<td>1.3016</td>
</tr>
<tr>
<td>does lack of tax information affect your business’ tax compliance</td>
<td>35</td>
<td>3.2571</td>
<td>1.42133</td>
</tr>
<tr>
<td>As a business entity, are you able to correctly calculate the tax amount payable based on available the information</td>
<td>35</td>
<td>3.0000</td>
<td>1.39326</td>
</tr>
<tr>
<td>As a business entity, are you aware of the consequences of failing to meet your tax obligations in time</td>
<td>35</td>
<td>3.5429</td>
<td>1.17180</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>35</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher (2018)

From the results it implied that the business entity is aware of the consequences in failing to meet tax obligations in their financial performance. However, awareness of tax obligation is not well known implying that there is need to make awareness.
4.3.2 Tax Rates and its Impact on Financial performance

The study sought to establish how tax rates affect financial performance of the business average yearly spending as presented table 4.8.

The study shows that 48.6% of the respondents had an average spending of Between Ksh. 50,001 and Ksh. 100,000, 22.9% of the respondents had an average spending of Between Ksh. 10,001 and Ksh. 50,000, 17.1% of the respondents had an average spending of Over Ksh. 100,000 and 11.4% of the respondents had an average spending of Below Ksh 10,000 as presented in table 4.8.

Table 4.8. Average Yearly Spending to Meet Tax Obligations

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Ksh 10,000</td>
<td>4</td>
<td>11.4</td>
</tr>
<tr>
<td>Between Ksh. 10,001 and Ksh. 50,000</td>
<td>8</td>
<td>22.9</td>
</tr>
<tr>
<td>Between Ksh. 50,001 and Ksh. 100,000</td>
<td>17</td>
<td>48.6</td>
</tr>
<tr>
<td>Over Ksh. 100,000</td>
<td>6</td>
<td>17.1</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Researcher (2018)

From the results, it is indicated that the majority of business had an average yearly spending of Between Ksh. 50,001 and Ksh. 100,000 on tax obligations. Thus, tax rates had a great impact on their financial performance of the business. However, some respondents are not able to meet tax obligations due to their low earnings in less Ksh 10000 yearly.

The study also sought to establish the extent to which tax rates affect taxpayers take on tax rates on financial performance as presented in table 4.9.
Table 4.9 Taxpayers Take on Tax Rates on Financial performance

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Too high</td>
<td>6</td>
<td>17.1</td>
<td>17.1</td>
</tr>
<tr>
<td>Too low</td>
<td>16</td>
<td>45.7</td>
<td>62.9</td>
</tr>
<tr>
<td>Reasonable</td>
<td>13</td>
<td>37.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher (2018)

From the results, it is indicated that 16(45.7%) of respondents had too low in taxpayers take, 13(37.1%) of the reasonable take in Kenya tax rates, and 6(17.1%) of the respondents had too high in taxpayers take in Kenyan tax rates. The study findings shows that taxpayers had very low take in Kenyan tax rates. This indicated that tax rates had negative impacts on financial performance of the business.

The study findings agreed Bolboros (2016) who investigated tax rates on revenue collection. His study found that leaving the extent at which tax rate at which tax collected impact financial performance. The findings also add that tax rates had a great impact on economic financial performance and regulations of money circulations. Progressive tax rates influence tax collection with increase in income tax hence low take by taxpayers. Cioponea (2007) on a study of public financial theory noted that direct tax and indirect taxes rates are used by the government to raise revenue but not for taxpayers take. Income tax rates are tax deducted from one’s earning which may be from his or her salary paid to employees which has no take on taxpayers.

The study further examined how tax rates affect financial performance with variables descriptions as presented in table 4.10.
Table 4.10 Tax Rate and Financial performance

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average spending yearly meet tax</td>
<td>2.7143</td>
<td>.89349</td>
</tr>
<tr>
<td>obligations from ksh 10001 an ksh 50000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxpayers’ take on the Kenya tax rates</td>
<td>2.2000</td>
<td>.71948</td>
</tr>
<tr>
<td>over ksh. 100000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From table 4.10, the study indicated that most of the respondents agreed that on average of their early spend to meet on tax obligations between Ksh. 10,001 and Ksh. 50,000 which had a mean if 2.7143 and standard deviation of 0.89349 while some of the of the respondents agreed that Taxpayers’ had tool take on the Kenya tax rates which had a mean of 2.2000 with standard deviation of 0.71948. This indicated that tax rates are the obligations which had a great impact on financial performances.

The findings can be supported by empirical literature by the study of Ali, Sjursen and Michelsen (2015) who studied factors affecting tax compliance attitude in Africa, Evidence from Kenya, Tanzania, Uganda and South Africa. His Findings indicated that the impact of corporate incomes tax rates is borne by business owners through decreased profits either by employees through decreased wages or by customers through prices. However, in tax equity finance is the investment transaction investor has to focus with large tax liabilities makes an equity investment in another business accruing tax credits, investors return comes from realizing those tax credits against their tax liabilities.
4.3.3 Tax Administration and Financial performance

The study sought to establish the impact of Tax administration on financial performance
Table 4.11 Tax Administration and Financial performance

<table>
<thead>
<tr>
<th>Description</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax administration is complex in tax reforms</td>
<td>35</td>
<td>2.8000</td>
<td>1.36769</td>
</tr>
<tr>
<td>Tax reform reduces tax complexity in enforcement</td>
<td>35</td>
<td>3.0000</td>
<td>1.32842</td>
</tr>
<tr>
<td>Equality of tax administration services providing the largest marginal revenues in reducing tax gaps in tax enforcement measures</td>
<td>35</td>
<td>3.2000</td>
<td>1.32399</td>
</tr>
<tr>
<td>Tax authority provides greater assistance to tax payers creating favorable conditions for tax compliance</td>
<td>35</td>
<td>2.4571</td>
<td>1.35783</td>
</tr>
<tr>
<td>Tax administration has been changed from an enforcement paradigm to a service paradigm</td>
<td>35</td>
<td>2.5429</td>
<td>1.14642</td>
</tr>
<tr>
<td>The paradigm reduces criminal aspects of tax evasion tax measures</td>
<td>35</td>
<td>3.0026</td>
<td>.76107</td>
</tr>
<tr>
<td>Tax authorities focus on helping taxpayer to file taxes by providing information needed</td>
<td>35</td>
<td>2.8286</td>
<td>1.44478</td>
</tr>
<tr>
<td>The generalization of tax administration based on financial performance is problematic to taxpayers</td>
<td>35</td>
<td>2.6286</td>
<td>1.37382</td>
</tr>
<tr>
<td>It improve tax payers convenience in tax assessment</td>
<td>35</td>
<td>3.2571</td>
<td>1.29121</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>35</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: (Researcher, 2018)

The study findings showed that tax administration improve tax payer’s convenience in tax assessment had a mean of 3.2571 and standard deviation of 1.29121, The paradigm reduces criminal aspects of tax evasion tax measures with a mean of 3.0026 and standard deviation of
Equality of tax administration services providing the largest marginal revenues in reducing tax gaps in tax enforcement measures had a mean of 3.2000 and standard deviation of 1.32399. Tax reform reduces tax complexity in enforcement had a mean of 3.0000 and standard deviation of 1.32842. Tax authorities focuses on helping taxpayer to file taxes by providing information needed had a mean of 2.8286 and standard deviation of 1.44478. Tax administration is complex in tax reforms with a mean of 2.8000 and standard deviation of 1.36769. The generalization of tax administration based on financial performance is problematic to taxpayers a mean of 2.6286 and standard deviation of 1.37382. Tax administration has been changed from an enforcement paradigm to a service paradigm had a mean of 2.5429 and standard deviation of 1.14642. Tax authority provides greater assistance to tax payers creating favorable conditions for tax compliance had a mean of 2.4571 and standard deviation of 1.35783.

From the results, it is that tax administration improves tax payer’s convenience in tax assessment with the highest mean of 3.2571 and standard deviation of 1.29121. However, Tax authority provides greater assistance to tax payers creating favorable conditions for tax compliance had the lowest mean of 2.4571 and standard deviation of 1.35783 which implied a need to provide assistance. There implies also that tax administration is either positive or negatively affect financial performance.

### 4.4.4 Tax Purpose and Financial performance

The study sought to examine the impact of tax purpose on financial performance. The following aspects were used to examine the impact of tax purpose as presented in table 4.12.

The results showed that tax is used to achieve per capital income which leads to the improved standard of living by citizens with a mean of 4.1429 and standard deviation of 0.80961, taxation
is a tool for revenue generations in the country for structural economic development with a mean of 3.1143 and standard deviation of 1.30094, It is a tool of fiscal policy employed by the government to influence negatively or positively the type of economic activities in a country with a mean of 3.0286 and standard deviation of 1.12422, Tax inspects controls for the audit probabilities faced by the business with a mean of 2.9429 and standard deviation of 1.05560, Tax costs are associated to discourage harmful commodities with a mean of 2.8000 and standard deviation of 1.02326.

The estimated tax ratios in actual revenue collected are used by private consumptions with a mean of 2.7948 and standard deviation of 0.77809, Adversely affect business by Government Policies and Regulations with a mean of 2.7429 and standard deviation of 1.26823, Role of taxation in economic development and social sustainability in government revenue is good with a mean of 2.3714 and standard deviation of 1.30802, It Relates to taxation as a tool for revenue collection and wealth creation with a mean of 2.3714 and standard deviation of 1.30802.
Table 4.12 Tax purpose on financial performance

<table>
<thead>
<tr>
<th>Purpose</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation is a tool for revenue generations in the country for structural economic development</td>
<td>35</td>
<td>3.1143</td>
<td>1.30094</td>
</tr>
<tr>
<td>It relates to taxation as a tool for revenue collection and wealth creation</td>
<td>35</td>
<td>2.3714</td>
<td>1.30802</td>
</tr>
<tr>
<td>Role of taxation in economic development and social sustainability in government revenue is good</td>
<td>35</td>
<td>2.3714</td>
<td>1.30802</td>
</tr>
<tr>
<td>It is a tool of fiscal policy employed by the government to influence negatively or positively the type of economic activities in a country</td>
<td>35</td>
<td>3.0286</td>
<td>1.12422</td>
</tr>
<tr>
<td>Adversely affect business through Government Policies and Regulations</td>
<td>35</td>
<td>2.7429</td>
<td>1.26823</td>
</tr>
<tr>
<td>The estimated tax ratios in actual revenue collected are used by private consumptions</td>
<td>35</td>
<td>2.7948</td>
<td>.77809</td>
</tr>
<tr>
<td>Tax is used to achieve per capital income which leads to the improved standard of living by citizens</td>
<td>35</td>
<td>4.1429</td>
<td>.80961</td>
</tr>
<tr>
<td>Tax inspects controls for the audit probabilities faced by the business</td>
<td>35</td>
<td>2.9429</td>
<td>1.05560</td>
</tr>
<tr>
<td>Tax costs are associated to discourage harmful commodities</td>
<td>35</td>
<td>2.8000</td>
<td>1.02326</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>35</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: (Researcher, 2018)

Tax is used to achieve per capital income which leads to the improved standard of living by citizens with a mean of 4.1429 and standard deviation of 0.80961 and Relates to taxation as a tool for revenue collection and wealth creation with a mean of 2.3714 and standard deviation
of 1.30802. This implied the tax is used to achieve per capital income which leads to the improved standard of living.

### 4.4.5 Financial performance

The study sought to establish the impact of taxation on financial performance. Financial performance was measured in terms of return on investment, return on equity, and return on assets and market share aspects from empirical aspects. Table 4.13 show financial performance aspects in relations to taxation.

<table>
<thead>
<tr>
<th>Table 4.13 Financial performance</th>
<th>N</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reflects on return on investment, return on equity, and liquidity</td>
<td>35</td>
<td>2.9429</td>
<td>1.05560</td>
</tr>
<tr>
<td>It a measure of how well a firm can use its asset to generate revenue for income reporting</td>
<td>35</td>
<td>2.8000</td>
<td>1.02326</td>
</tr>
<tr>
<td>Measure of the firms’ financial health over a given period</td>
<td>35</td>
<td>3.3143</td>
<td>1.20712</td>
</tr>
<tr>
<td>The ratio of business returns less expected return on tax is worth</td>
<td>35</td>
<td>4.0857</td>
<td>.56211</td>
</tr>
<tr>
<td>It suggests that only risk that are taxed and priced by tax is at risk</td>
<td>35</td>
<td>3.3429</td>
<td>1.05560</td>
</tr>
<tr>
<td>Maximize profits, sales, capture a particular market share, improve survival chances of the firm, and maximize wealth</td>
<td>35</td>
<td>3.4857</td>
<td>1.09468</td>
</tr>
<tr>
<td>Evaluate financial performance potential, earning capacity and financial strength</td>
<td>35</td>
<td>1.8000</td>
<td>1.25558</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>35</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: (Researcher, 2018)
The results indicated that the ratio of business returns less expected return on tax is worth with a mean and standard of 4.0857 and 0.56211, maximize profits, sales, capture a particular market share, improve survival chances of the firm, and maximize wealth in a mean 3.4857 and standard of 1.09468. It suggests that only risk that are taxed and priced by tax is at risk with a mean 3.3429 and standard deviation of 1.05560, Measure of the firms’ financial health over a given period with a mean 3.3143 and standard deviation of 1.02712, Reflects on return on investment, return on equity, and liquidity with a mean 2.9429 and standard deviation of 1.05560. It a measure of how well a firm can use its asset to generate revenue with a mean 2.8000 and standard deviation of 1.02326. This implies that the ratio of business returns is less expected with tax returns worth. However, taxation impacts should be reflected on the business return on investment, return on equity, and level of liquidity.

4.5 Correlation analysis

The study sought to establish the relationship between taxation and financial performance.

Table 4.14 Presents correlation analysis. The study showed that Tax Administration has a positive correlation a positive correlation $r= 0.663^{**}$ and $P=0.000 \ varepsilon=0.05$ with statistical significant influence on financial performance. Tax Purpose has a positive correlation of $r=0.509^{**}$ and $P=0.000 \ varepsilon=0.05$ and has significant influence on financial performance. Tax Rate And Its Impact has a negative correlation $r= -0.095$ and $P=0.589 \ varepsilon=0.05$ insignificant influence on financial performance and tax awareness is either negatively or positively correlated to financial performance.
From the finding study found that has tax awareness has a positive correlation of 1; this implies that there was a strong statistical correlations from tax awareness on variations in financial performance. This implies that there is a significant relationship between taxation and financial performance. This can be supported by the study of Richard Bird (2014) who examined the impact of administrative dimension of tax reforms in Asian pacific tax bulletin.
The used Regression analysis to investigate whether there is a significant relationship between taxation and financial performance as presented in table 4.15 of regression model.

**Table 4.15 Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.698*</td>
<td>.487</td>
<td>.419</td>
<td>.62849</td>
</tr>
</tbody>
</table>

Predictors: (Constant), Tax Purpose, Tax Rate and Its Impact, Tax Awareness/Knowledge, Tax Administration

**Source:** (Researcher, 2018)

From the regression model, R Square 0.487 implies that a change in one unit of independent variables (taxation; Tax Purpose, Tax Rate And Its Impact, Tax Awareness/Knowledge, Tax Administration causes a change of 48.7% of dependent variable (financial performance). This implies that any change in one unit of taxation causes variation in financial performance by 48.7%, while the 51.3% can be explained by other variables not in the study. The critical value p=0.000 less that 5% of level of significance in the regression model implies that the model is significant, thus should hold. Thus, Martinez (2011) noted the importance of tax to government revenue. The tax can change between the expected and actual revenue varies widely from business to business.

To test fitness of fit, the study used ANOVA as presented in table 4.16.
Table 4.1 ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>11.256</td>
<td>4</td>
<td>2.814</td>
<td>7.124</td>
<td>.000b</td>
</tr>
<tr>
<td>1 Residual</td>
<td>11.850</td>
<td>30</td>
<td>.395</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>23.106</td>
<td>34</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Tax Purpose , Tax Rate And Its Impact , Tax Awareness/Knowledge, Tax Administration

The Table 4.16 shows ANOVA. The results show that the calculated F= 7.124, with P=0.000, ε= 0.001, thus, the model goodness is fit to predict taxation variation in financial performance. The study also confirms that there statistical significant relationship between taxation and financial performance. This finding is against with the study of Bhattacharya (2011) who show that there are no statistical significant relationship between tax compliance and financial performance

The regression coefficient was used to establish the regression equation as presented in table 4.17.
Table 4.17 Regression Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>.592</td>
<td>.805</td>
<td>.736</td>
<td>.468</td>
</tr>
<tr>
<td>Tax awareness/knowledge</td>
<td>-.366</td>
<td>.195</td>
<td>-.397</td>
<td>-1.875</td>
</tr>
<tr>
<td>1 Tax rate and its impact</td>
<td>.223</td>
<td>.146</td>
<td>.275</td>
<td>1.524</td>
</tr>
<tr>
<td>Tax administration</td>
<td>.096</td>
<td>.271</td>
<td>.102</td>
<td>.356</td>
</tr>
<tr>
<td>Tax purpose</td>
<td>.894</td>
<td>.291</td>
<td>.595</td>
<td>3.070</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial performance

**Source: Researcher (2018)**

From the results, linear regression model becomes a linear equation as presented in;

\[ Y = 0.592 + (-0.366)x_1 + 0.223x_2 + 0.096x_3 + 0.894x_4 \]

\( x_1 \) - Tax awareness and knowledge, \( x_2 \) - Tax rate and its impact, \( x_3 \) - Tax administration, and \( x_4 \) - Tax purpose, \( Y \) - financial performance

The regression equation indicated that Tax awareness/knowledge, -0.366, 0.071 \( \varepsilon \), \( p=0.05 \), implies that change in one independent aspect of Tax awareness/knowledge causes a negative variation (decrease) of financial performance by 36.6\%, a change in one independent aspect of Tax rates causes a positive variations (an increase) in financial performance by 23.3\%, a change in one independent aspect of Tax administration causes a positive variations (an increase) in financial performance by 9.6\% and a change in one independent aspect of tax purpose causes a positive variations (an increase) in financial performance by 89.4\% and statistically significant.

The study implies that tax purpose had a strong statistical significant impact on financial
performance of small scale enterprises, since the p value for tax purpose in relations to other variables is less than 5% level of significance.

**Table 4.18 Multi-Collinearity Statistics**

The study sought to establish the level of interrelationship between independent variables such that their impacts cannot be interpreted reliably even through predictable values.

<table>
<thead>
<tr>
<th>Model</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td>(Constant)</td>
<td></td>
</tr>
<tr>
<td>Tax awareness knowledge</td>
<td>.382</td>
</tr>
<tr>
<td>Tax rate and its impact</td>
<td>.526</td>
</tr>
<tr>
<td>Tax administration</td>
<td>.207</td>
</tr>
<tr>
<td>Tax purpose</td>
<td>.455</td>
</tr>
</tbody>
</table>

**Source; Researcher, (2018)**

The study indicates that tax administration has high multi-collinearity (VIF 4.840)ε4.0 in lieu of rule of thumb and Tolerance (.207) more than the cutoff value 0.20, thus tax administration should not be maintained to predict due to multi-collinearity problem. This is implies that tax administration has no correlation impacts(1-0.207) r=0.793 ε=0.8 as the tolerance established a relationship to their independent variables. However, Tax awareness knowledge VIF 2.619 with T(.382)tax purpose VIF 2.196 with .455 and Tax rate and its impact VIF 1.900 with .526 had no problem of multicollinearity since their VIF2.619 ,2.196 ,and1.900ε= 4.0 this implies that their interconnection
impacts takes into financial performance. The study findings indicated that using multi-collinearity, taxation can only improve financial performance through Tax taking into account of tax awareness /knowledge, tax purpose and Tax rate and its impacts.
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the study findings

The first objective was sought to examine the impact of tax awareness on financial performance. The used descriptive statistics in terms of the number of observations made and analyzed by mean and standard deviation. The study shows that business entity is aware of the consequences of failing to pay tax obligations in time which indicated a high mean of 3.5429 with standard deviation 1.17180. This was followed by lack of tax information which affected business’ from tax compliance which the second highest a mean of 3.2571 with standard deviation 1.42133. This study also adds that taxpayers have Information about taxes in Kenya since they are readily available with third highest mean of 3.2000 and standard deviations of 1.27879. Finally but not limited to a business entity able to correctly calculate the amount of tax payable based on the available information with a mean of 3.000 and standard deviation of 1.39326. The business entity aware of your tax obligation however, they should be able to correctly calculate the amount of tax payable based on the available information.

The second objective sought to examine how tax rates affect financial performance of the small business enterprises. The results show that an average yearly spending on tax obligations ranges between Ksh. 50,001 and Ksh. 100,000 which was recorded the highest (48.6 %) of the respondents response, this was followed by 22.9% of the respondents who indicated that an average yearly spending of the yearly on tax obligations was between Ksh. 10,001 and Ksh. 50,000, and some of the respondents indicated that yearly spending on tax obligation was over Ksh. 100,000 with a few(11.4%) of the respondents indicated an average spending of less
that Kenya shilling 10,000 yearly on tax obligation. From the results, it is indicated that the
majority of business had an average yearly spending on tax obligation from between Ksh. 50,001 and Ksh. 100,000. However, some respondents are not able to meet tax obligations due to their low earnings in less Ksh 10000 yearly.

Based on the findings from the second objective, it is indicated that the majority 16(45.7%) of respondents expect low tax rate in taxpayers take, while some 13(37.1%) take reasonable tax rates in Kenya with small number 6(17.1%) of the respondents agreed on too high in taxpayers take in Kenyan tax rates expecting high financial performance. The findings implied that taxpayers take very low tax rates in Kenyan tax rates in relations to financial performance. This indicated that taxpayer take in Kenya tax rates affect negatively or positively financial performance of the small business. The respondents agreed that that tax rates had a great impact on economic financial performance and regulations of money circulations.

The third objective sought to determine the impacts of Tax administration on financial performance of small business enterprises. Based on the descriptive statistics, the findings indicated that tax administration improve tax payer’s convenience in tax assessment with the highest mean of 3.2571 with a standard deviation of 1.29121, followed by the paradigm which tax administration reduces criminal aspects of tax evasion with tax measures with a mean of 3.0026 and standard deviation of .76107. Equality of tax administration services provides the largest marginal revenues by reducing tax gaps through tax enforcement measures which recorded a mean of 3.2000 with a standard deviation of 1.32399. Further, tax administration use tax reform to reduce tax complexity with Tax authorities focusing and helping taxpayer to file taxes returns by providing information needed.
The study also indicated that the generalization of tax administration was problematic to financial performance which had a mean of 2.6286 and standard deviation of 1.37382, tax administration has been varying from tax enforcement paradigm to a service paradigm which had a mean of 2.5429 and standard deviation of 1.14642. However, tax authority provides greater assistance to tax payers creating favorable conditions for tax compliance had a mean of 2.4571 and standard deviation of 1.35783. There implies that tax administration must be enforced conveniently to taxpayers to improve financial performance.

The fourth objective sought to establish the impact of tax purpose on financial performance. Based on the descriptive statistics it was indicated tax is used to meet per capital income which leads to the improved standard of living by citizens with highest mean of 4.1429 and standard deviation of 0.80961, this was followed by taxation used as a tool to generate government revenue for structural economic development which had a mean of 3.1143 and standard deviation of 1.30094, It also indicated that tax is a tool for fiscal policy employed by the government to influence the business negatively or positively depending on the nature of business activities in a country with a mean of 3.0286 and standard deviation of 1.12422. However, the study indicated that the estimated tax ratios are for actual revenue collected by government consumptions with a mean of 2.7948 and standard deviation of 0.77809.

The study finally indicated that tax is adversely affected business by Government Policies and Regulations with a mean of 2.7429 and standard deviation of 1.26823, followed by the role of taxation in economic development and good social sustainability with a mean of 2.3714 and standard deviation of 1.30802. The purpose of Tax is to raise revenue for wealth creation with a mean of 2.3714 and standard deviation of 1.30802, and achieve per capital income for improved
standard of living by citizens. This implied the tax is used to achieve per capital income which leads to the improved standard of living.

Based on the findings, financial performance was measured in aspects of return on investment, return on equity, and return on assets and market share aspects from empirical aspects. The results indicated that the ratio of business returns less concerned with tax worth which the highest mean 4.0857 and 0.56211. Financial performance in relations to tax is maximized through more profits from more sales, capture a particular market share, improve survival chances of the firm, and maximizes wealth with a mean 3.4857 and standard of 1.09468.

The study also indicates that only risk that are taxed and priced by tax is at risk to achieve financial performance, the measure of the firms’ financial health over a given period, reflects on return on investment, return on equity, and liquidity. It a measure of how well a firm can use its asset to generate revenue with a mean and standard deviation of 3.3429; 1.05560, 3.3143; 1.20712, 2.9429; 1.05560, 2.8000; 1.02326. This implies that the ratio of business returns is less expected with tax returns worth. However, taxation impacts should be reflected on the small business enterprise return on investment, return on equity, and level of liquidity.

5.2 Conclusion of the Study

Based on the first objective examined the impact of tax awareness on financial performance. The study concluded that business entity is aware of the consequences of failing to pay tax obligations in time, lack of tax information leads to non-compliance to tax. Finally, the business entity is able to correctly calculate the amount of tax payable based on the available information. The taxpayers from business entity are aware of tax obligation or tax payable based on the available information.
The second objective examined how tax rates affect financial performance of the small business enterprises. The study concluded that an average yearly spending on tax obligations ranges between Ksh. 50,001 and Ksh. 100,000 of the respondents response, this can be improved by an average yearly spending of the yearly between Ksh. 10,001 and Ksh. 50,000, and some of the respondents indicated that yearly spending on tax obligation was over Ksh. 100,000. From the conclusions, the majority of business had an average yearly spending on tax obligation from between Ksh. 50,001 and Ksh. 100,000. Further, the findings concluded that taxpayers take very low tax rates in Kenyan tax rates which had a great impact on economic financial performance and regulations of money circulations.

The third objective determined the impacts of Tax administration on financial performance of small business enterprises. Findings concluded that tax administration improves tax payer’s convenience in tax assessment, followed by the paradigm in which tax administration reduces criminal aspects of tax evasion. The tax administration services provide the largest marginal revenues by reducing tax gaps through tax enforcement. Further, tax administration makes tax reform to make tax collection easier and help taxpayer to file taxes returns by providing information needed.

The fourth objective was to establish the impact of tax purpose on financial performance. This was concluded that tax is used to meet per capital income which leads to the improved standard of living by citizens, tax purpose to generate government revenue for economic development and tool for fiscal policy. The study also concluded that tax ratios are estimated for actual revenue generated for government consumptions. Further, it concluded that tax is adversely affected by Government Policies and Regulations with the role of taxation in economic development and
good social sustainability. The purpose of Tax is to raise revenue for wealth creation for improved standard of living by citizens.

Based on the findings, the study concluded that financial performance was measured by different aspects based on return on investment, return on equity, and return on assets and market share aspects from empirical aspects. The ratio of financial performance indicators is less concerned with tax worth. Financial performance in relations to tax is stretched through more profits from sales, particular market share, and maximizes wealth. The study also concluded that only risk that are taxed and priced by tax is at risk to achieve financial performance, the measure of the firms’ financial health over a given period, reflects on return on investment, return on equity, and liquidity.

Based on the correlation analysis, there is a relationship between taxation and financial performance with different taxations impacts. The study concluded that tax Administration has a positive correlation a positive correlation \( r= 0.663^{**} \) with \( P \varepsilon=0.05 \) which is statistical significant influence on financial performance. Tax Rate and Its Impact has a negative correlation \( r= -0.095 \) and \( P=0.589 \varepsilon=0.05 \) which is insignificant to financial performance. From regression analysis, it was concluded that a change in one unit of independent variables (taxation) causes a change of 48.7% of dependent variable (financial performance). The critical value is less than 5% of level of significance in the regression model concluded that the model is significant, thus should hold.

The study also concluded that there statistical significant relationship between taxation and financial performance. From the regression equation the study concluded that Tax awareness/knowledge, \(-0.366, 0.07\varepsilon p=0.05\), implies that change in one independent aspect of Tax awareness/knowledge causes negative variation (decrease) in financial performance by
36.6% and not statistically significant, but tax purpose had a strong statistical significant impact on financial performance of small and medium enterprises.

5.3 Recommendation of the study

The first objective was sought to examine the impact of tax awareness on financial performance. From the finding, it is indicated that lack of tax information affects enterprises from tax compliance. This study recommended that taxpayers should have Information about to establish tax compliance not only awareness. Finally, the study also recommended business entity should have knowledge on how to calculate the amount of tax payable based on the available information. The business entity aware of your tax obligation, however, they should be able to correctly calculate the amount of tax payable based on the available information.

The third objective determined the impacts of Tax administration on financial performance of small business enterprises. From the findings it is recommended that tax administration should reduce criminal aspects of tax evasion with well know tax measures. Further, tax administration should use current tax reform to reduce tax complexity with Tax authorities should focus and help taxpayer during filing taxes returns information. However, tax authority provides greater assistance to tax payers; it should create favorable conditions for tax compliance not only tax awareness.

The fourth objective established the impact of tax purpose on financial performance. Tax purpose should be a tool for fiscal policy employed by the government to influence the business negatively or positively depending on the nature of business activities in a country. However, the study also recommended that the estimated tax ratios should actual to measure revenue collected. The study finally indicated that tax is adversely affected business by Government Policies and
Regulations. The role of taxation in economic development should be used for social sustainability to achieve per capital income for improved standard of living by citizens.

The study recommended that Tax awareness and knowledge should be enhanced in order to increase financial performance.

The study recommended for further study on the impact of Tax Awareness/Knowledge on business financial performance on other business areas. The study further recommended for a study on the impact of tax administration on financial performance of firms.
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APPENDICES

Appendix 1: Introduction Letter

George O. Okong’o,
Kisii University,
P.O. Box 408 – 40200,
KISII-KENYA.

To whom it may Concern,

Dear Respondent,

RE: REQUEST FOR PARTICIPATION IN THE STUDY (IMPACT OF TAXATION ON FINANCIAL PERFORMANCE OF SMALL SCALE BUSINESS ENTERPRISES IN UGENYA SUB-COUNTY, SIAYA COUNTY, KENYA)

The above subject refers.

I am George OtienoOkong’o, an MBA student at Kisii University currently undertaking a Master’s degree program in Finance. This research project is part of the requirements for the award of the said degree.

I am therefore humbly requesting you to appropriately fill in and return the questionnaire herewith attached to enable me accomplish my studies. The information collected is purely intended for academic purposes and shall be handled with confidentiality.

Thanking you in advance for your time and cooperation.

Yours
GEORGE OTIENO OKONG’O
Researcher
Appendix II Application For Research Permit

Ref: KSU/SBE/CBM13/10934/15

Friday, 28th July, 2017

The Director,
National Commission for Science, Technology & Innovation (NACOSTI)
NAIROBI

Dear Sir,

REF: APPLICATION FOR A RESEARCH PERMIT FOR
GEORGE OTIENO OKONG’O REG. NO. CBM13/10032/15

The above named is a Masters student in our institution who intends to carry out a Research. The intended study is titled; “Impact of Taxation on Financial Performance of Small Scale Business Enterprises in Ugenya Sub-County, Siaya County, Kenya”.

The purpose of this letter is to request you to give him a research permit to enable him conduct the research.

Thank you

Dr. Christopher Ngach, PhD
DEAN SCHOOL OF BUSINESS AND ECONOMICS

CN/ps
Appendix II Research Authorization

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Telephone: +254-20-2213471,
2241349, 3330571, 2219420
Fac: +254-20-318245, 318249
Email: ig@nacosti.go.ke
Website: www.nacosti.go.ke
When replying please quote

Ref. No. NACOSTI/P/17/67179/18608 Date: 7th September, 2017

George Otieno Okongo
Kisii University
P.O. Box 408-40200
KISII.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on “Impact of taxation on financial performance of small scale business enterprises in Ugenya Sub-County, Siaya County, Kenya” I am pleased to inform you that you have been authorized to undertake research in Siaya County for the period ending 5th September, 2018.

You are advised to report to the County Commissioner and the County Director of Education, Siaya County before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit a copy of the final research report to the Commission within one year of completion. The soft copy of the same should be submitted through the Online Research Information System.

GODFREY P. KALERWA MSC., MBA, MKIM
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The County Commissioner
Siaya County.

The County Director of Education
Siaya County.
Appendix III Research Permit

THIS IS TO CERTIFY THAT:

MR. GEORGE OTIENO OKONGO
of KISII UNIVERSITY, 0-40131
KISUMU, has been permitted to conduct
research in SIAYA COUNTY
on the topic: IMPACT OF TAXATION ON
FINANCIAL PERFORMANCE OF SMALL
SCALE BUSINESS ENTERPRISES IN
UGENYA SUB-COUNTY, SIAYA
COUNTY, KENYA

for the period ending:
5th September, 2018

Permit No : NACOSTI/P/17/67179/18608
Date Of Issue : 7th September, 2017
Fee Received: Ksh 1000

........................................
Signature

Director General
National Commission for Science,
Technology & Innovation

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REPUBLIC OF KENYA
MINISTRY OF EDUCATION
State Department of Basic Education

COUNTY DIRECTOR OF EDUCATION
SIAYA COUNTY
P.O. BOX 564
SIAYA

E-mail: cdesiaya2016@gmail.com
When replying please quote
SCA/URA/10/VOL.1/7

Friday, September 15, 2017

TO WHOM IT MAY CONCERN

RESEARCH AUTHORIZATION: GEORGE OTIENO OKONGO

The above named has been mandated to carry out research in Siaya County vide an authorization letter from National Commission for Science, Technology and Innovation Ref.No.NACOSTI/P/17/67179/18608 dated 7TH September, 2017

The research title is “Impact on taxation on financial performance of small scale business enterprises in Ugenya Sub County, Siaya County, Kenya”

Kindly accord him the necessary assistance.

FOR:
COUNTY DIRECTOR OF EDUCATION
SIAYA COUNTY
P. O. Box 564 - 40500, SIAYA

SAMUEL ONDIEKI
FOR: COUNTY DIRECTOR OF EDUCATION
SIAYA COUNTY

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Appendix IV Research Questionnaire

SECTION A: PERSONAL INFORMATION

1. Gender
   a. Male
   b. Female

2. Age of respondents
   a. 18 to 25
   b. 26 to 30
   c. 31 to 35
   d. 36 to 40
   e. 41 and above

3. Level of education
   a. Informal education
   b. Primary level
   c. Secondary level
   d. Diploma holders
   e. Degree
   f. Postgraduate

SECTION B: BACKGROUND BUSINESS INFORMATION

1. Name of the business

2. For how long have you been in the business?
a) Less than 1 year  
b) 2-3 years  
c) 4-5 years  
d) Over 5 years

3. What is the nature of your business?  
a) Agriculture  
b) Manufacturing  

Telecommunications  
c) Transport

SECTION C: TAX AWARENESS/KNOWLEDGE AND ITS IMPACT ON FINANCIAL PERFORMANCE OF SSBs


<table>
<thead>
<tr>
<th>Factors</th>
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<th>(2)</th>
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</thead>
<tbody>
<tr>
<td>Is Information about taxes in Kenya readily available</td>
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<tr>
<td>As a business entity, are you aware of your tax obligation</td>
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<tr>
<td>does lack of tax information affect your business’ tax compliance</td>
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<tr>
<td>As a business entity, are you able to correctly calculate the tax amount payable based on available the information</td>
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<tr>
<td>As a business entity, are you aware of the consequences of failing to meet your tax obligations in time</td>
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</table>
Do your tax obligations affect the financial performance of your business If Yes, in what ways (please explain)

SECTION D: TAX RATE AND ITS IMPACT ON FINANCIAL PERFORMANCE OF SSBs

1. On average how do you spend yearly to meet your tax obligations?
   - Below Ksh. 10,000 [ ]
   - Between Ksh. 10,001 and Ksh. 50,000 [ ]
   - Between Ksh. 50,001 and Ksh. 100,000 [ ]
   - Over Ksh. 100,000 [ ]

2. How does the amount payable in terms of taxes influence the financial performance of your business?

3. (a) What is your take on the Kenya tax rates?
   - Too high [ ]
   - Too low [ ]
   - Reasonable [ ]

   (b) Give reasons for your answer in (a) above.
SECTION E: TAX ADMINISTRATION AND ITS IMPACT ON FINANCIAL PERFORMANCE OF SSBs

1. To what extent does tax administration affects financial performance of your business?


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<td>tax administration is complex in tax reforms</td>
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<tr>
<td>It enhances Tax reform reduces tax complexity in enforcement</td>
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<td>equality of tax administration services providing the largest marginal revenues in reducing tax gaps in tax enforcement measures</td>
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<tr>
<td>Tax authority provides greater assistance to tax payers creating favorable conditions for tax compliance</td>
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<td>Tax administration has been changed from an enforcement paradigm to a service paradigm</td>
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<td>The paradigm reduces criminal aspects of tax evasion tax measures</td>
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<td>Tax authorities focus on helping taxpayer to file taxes by providing information needed</td>
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<td>the generalization of tax administration on financial performance is problematic</td>
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<tr>
<td>It improve tax payers convenience in tax assessment</td>
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</table>
1. List the ways in which tax administration affects on the financial performance of your business

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2. In your own opinion, do you think tax administration is fairly and equitably done?

Yes [ ] No [ ] Not Sure [ ]

Please give reasons.

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SECTION F: TAX PURPOSE AND ITS IMPACT ON FINANCIAL PERFORMANCE OF SSBs


1.

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<tr>
<td>Taxation is a tool for revenue generations in the country for structural economic development</td>
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<tr>
<td>It Relates to taxation as a tool for revenue collection and wealth creation</td>
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<tr>
<td>Role of taxation in economic development and social sustainability in government revenue is good</td>
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</table>
It is a tool of fiscal policy employed by the government to influence negatively or positively the type of economic activities in a country

Adversely affect business by Government Policies and Regulations

The estimated tax ratios in actual revenue collected are used by private consumptions

Tax is used to achieve per capital income which leads to the improved standard of living by citizens

Tax inspects controls for the audit probabilities faced by the business

Tax costs are associated to discourage harmful commodities

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<th>G; FINANCIAL PERFORMANCE</th>
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<tr>
<td>1. In your view, to what extent does the financial performance of your business measure?</td>
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<td>Reflects on return on investment, return on equity, and liquidity</td>
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<td>It a measure of how well a firm can use its asset to generate revenue</td>
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<td>Measure of the firm’s financial health over a given period</td>
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</tbody>
</table>
The ratio of business returns less expected return on tax is worth
It suggests that only risk that are taxed and priced by tax is at risk
maximize profits, sales, capture a particular market share, improve survival chances of the firm, and maximize wealth
Evaluate financial performance potential, earning capacity and financial strength

Thank you for participating!
Appendix V: Study Area Map

MAP OF UGENYA SUB-COUNTY

Key:
- County Boundary
- Sub-County Boundary
- Location Boundary