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DEMYSTIFYING THE KEY TAXATION CONCEPTS TO IMPROVE COMPLIANCE BY SMALL AND MEDIUM ENTERPRISES IN KENYA

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ABSTRACT: *In Kenya, there exist small, medium (SMEs) and large enterprises but SMEs' have been always regarded as the engines due to their immense contribution to the economy. Many reforms in taxation system in Kenya have been done to ensure that the government collects enough revenue to finance its ever increasing budget. However, taxation is still an uphill task among SMEs thus viewed to be complex and a burden. In this regard therefore, the study was guided by tax compliance theory while assessing the key taxation concepts which will increase compliance among Kenya's SMEs. Using library research design, the study found out that SMEs in Kenya are in dire need of understanding the principal objective of taxation, taxation approaches, tax crimes and audits. However, the researcher recommends increased taxation sensitization by the main tax authority in Kenya (KRA) given the new reforms made. In addition, there is need to avail more knowledge to Kenya's SMEs regarding factors affecting their tax compliance.*

KEYWORD: SMEs, Tax compliance, Taxation Approaches, Tax Crimes, Tax audits

INTRODUCTION

Entrepreneurship has become a household term for both developed and developing economics in the recent times. According to Yadav and Goyal (2015), there has been growing interest in entrepreneurship. The renowned economists (Richard Cantillon and Adam Smith) studied entrepreneurship in the 17th and 18th century whereby Economist Joseph Schumpeter did the same in the 20th century. In an article by Chand (2015), entrepreneurship helps in developing managerial capabilities, creation of organizations, improving standards of living and a means of economic development. Through entrepreneurship, innovations have emerged which have positively resulted in creation of large, small and medium enterprises (SMEs). This is because according to Schumpeter (1976), entrepreneurs are willing and able to convert new ideas or inventions into successful innovations.

According to European Commission and SMEs consists of enterprises with less than 250 employees while in United States of America (USA), SMEs employ less than 500 persons. In Kenya, definition of an SME has been based mainly on the number of employees. For instance, the sessional paper No. 2 (1992) and the National Baseline Survey (1999) state that micro, small, medium and large enterprises constitutes a number of employees between 1 to 9, 10 to 49, 50 to 99, 100 and above respectively. According to World Bank, SMEs consists of enterprises whose annual turnover is between Kenyan Shillings (Kshs.) 8 to 100 million, asset base of Kshs. 4 million and employing between 5 to 150 persons. However, the term Micro, Small and Medium enterprise (MSME) or Micro Small Enterprises (MSEs) is sometimes used to refer to SMEs in Kenya. This study will use these terms interchangeably since it is a Kenya case study.

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SMEs have continually been referred as the engine of most economies by most scholars. This is due to their immense contributions which include employment, improvement of Gross Domestic Product (GDP) and industrialization. In Singapore, SMEs provide 62% of available jobs and makes 47% contribution to the country's GDP (SMU, 2008). Malaysia's SMEs constitutes 97.3% of the total business establishments (Ayyagari et al (2003). In Africa, SMEs form 90% of business operations and contributes over 50% employment (Okafor, 2006). For example, SMEs in Ghana contributes 70% to the GDP and constitutes 92% of businesses in the country (Frimpong, 2013). In Kenya, SMEs have been supported by the government because they make 25% contribution to the GDP (Economic Survey, 2012). The Economic Survey (2013) shows an upward increment in terms of employment from the informal sector (SMEs) between 2008 and 2012. Thus, however small they may be, SMEs equally to large enterprises have a direct impact on the country's performance or growth.

Kenya has been in the forefront to support the establishment and growth of SMEs. They are governed by the Micro and Small Enterprises Act No.55 of 2012 Laws of Kenya which aims at enacting their promotion, development, and regulation. Notably, Kenya has supported SMEs through establishment of e-Registry for business licenses, encouraging the growth of Micro Financial Institutions (MFIs) to extend credit, supporting women and youth entrepreneurs, enforcing of Vision 2030 and being part of the East African Community (EAC) and other global entrepreneurship partnerships such as Global Entrepreneurship Summit (GES). No doubt, all these efforts aim at ensuring that the SMEs have grown despite challenges that they face.

The Kenya tax system has evolved since independence. According to Mutua (2012), taxation is the key source of revenue in Kenya which has been used to provide public services to the citizens. According to Mutua, taxation has helped the government to finance 60% of the budget. Taxation issue in Kenya has become crucial given that the Constitution promulgated in 2010 paved way for formation of 47 county governments. Kenya Revenue Authority (KRA) was formed under the Acts of Parliament Chapter 469 laws of Kenya and became effective as from 1st July 1995. KRA has the mandate to collect revenue from individuals and businesses on behalf of government. In the ease of doing business (DB2015) report by World Bank Group, out of 189 economies, Kenya was ranked 136 while EAC counterparts (Rwanda and Tanzania) were ranked 46 and 131 respectively. Based on one of the topics covered by this report (paying taxes), Kenyan businesses seemed to be experiencing challenges since it was ranked 102 compared to Rwanda (27). Taxation among businesses is still a pressing issue which needs to be addressed. In this case therefore, SMEs' are not exempted to pay taxes thus there is need for them to understand the key taxation concepts of taxation.

Statement of the problem

Kenya has continuously reformed the taxation system such that in 1986, Kenya introduced the Tax Modernisation Programme according to IEA (2006) was introduced to enhance revenue collection, improve tax administration, reduce compliance and collection costs. This is because revenue collection is an important determinant of the economy of any country (Malima, 2013). Malima further asserts that the government needs to formulate a sound legislation which favours revenue collection activities. In Kenya, the government has regulations pertaining the eligibility of the businesses to remit taxes and how to do it. For example in January 1990, VAT was introduced to replace Sales tax that was in operation since 1973 (KRA, 2004). According to the VAT Act, Chapter 476 Laws of Kenya, SMEs and large enterprises need to be aware that VAT is charged on the supply of taxable goods or services made or provided in Kenya. In

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order to enable traders charge VAT, Electronic Tax Registers (ETR) machines were introduced in Kenya in 2004. In 2007, Turnover Tax (TOT) was introduced in which was designed for small businesses and is a presumptive tax where the tax base is the turnover; any business below Kshs.5 million is taxed at a flat rate of 3% of annual turnover.

Organization for Economic Cooperation and Development (OECD) developed the principles of good corporate governance which applies to all sectors. Transparency and accountability principles are therefore upheld when the business fulfils its responsibilities which include payment of taxes. Dalton (1996) states that tax is compulsory contribution regardless of the services rendered to the tax payer in return. Since SMEs have been known over time to make major contributions to the economy of a country, they need to obey the laws and regulations in the environment they operate in as a show of good governance. According to Saleemi (2010), various types of taxes include income tax, corporation tax, sales tax, excise tax, custom duty, fees,prices, fines, special assessments, Value Added Tax (VAT) along others. Thus, since tax is compulsory (Dalton, 1996), SMEs needs to understand which type they are supposed to pay to avoid penalties or other noncompliance costs.

Informal sector in Kenya consists of any activity generating income and profits though in small scale (Institute of Economic Affairs, IEA 2012). However, this sector according to IEA have been evading taxes because of the perception that tax burden is too high. The Kenyan government through KRA needs to collect more taxes to finance their operations. Studies done have shown that payment of taxes as an uphill task for SMEs. In the report by IEA (2012), micro and small businesses evade taxes due to the loopholes that exist. This means that many tax regulations are designed mainly for large businesses. The study by Wanjala et al (2005) shows that Kenya, as a developing country faces challenges in taxing income from the informal sector. Kiringiet al (2005) too concur tax collection challenges is rampant in developing countries. In a study by Waweru (2007), revenues from TOT became slimmer despite the introduction of TOT in 2007in Kenya. According to IEA (2012), improper bookkeeping by small businesses has hindered them from determining their turnover.No doubt therefore that taxation issue is still a mystery to many SMEs in Kenya thus they find ways to avoid it.Since revenue collection is key for the government, the study thus endeavours to answer the research question; **what are the important taxation concepts SMEs in Kenya need to understand to improve their compliance?**

LITERATURE REVIEW

Theoretical overview

The study adopted tax compliance theory by Allingham and Sandmo (1972) and Srinivasan (1973). The theory states that compliance is paramount because it means honouring tax liabilities according to tax laws and accounting practices. According to these scholars, tax compliance is a function of three variables namely; tax rate, tax audit and probability of detection. The theory was later extended by Yitzhaki (1974) whereby he imposed tax penalty on the tax understatement. In this study, tax compliance theory is relevant because there is need for SMEs to understand the concept of taxation well so al to avoid non – compliance or penalties.

Taxation among SMEs

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The main aim of imposing taxes in any country is to generate revenue. The principal objectives of taxation according to Anyanwu (1997) are; regulation of the economy and economic activities; rising of revenue for the government; and controlling of income and employment. In Kenya, taxation has been considered has the major source of revenue to finance the government budget. For instance in Kenya, taxes accounted for 86% and 95% of the total revenue in financial year 2012/2013 and 2013/2014 respectively. According to KRACommissioner General John Njiraini in July 2015, Kshs.963.8 billion was collected inform of taxes as at 30th June 2015 which was higher compared to Kshs.800 billion collected in 2012/2013.In the fiscal year 2014/2015, KRA were pressured to collect more revenue inform of taxes (Republic of Kenya, 2015). In this regard, a target of Kshs.1.12 trillion is expected to be revenue from taxes to finance the budget. In this view therefore, there is need to ensure that all taxpayers (individuals and organisations) understand the role they need to play in meeting this target.

Developing countries face challenges of low tax compliance and tax administration despite the increasing need to increase revenue collection (Korir, 2012). Jackson and Milliron (1989) posit that tax compliance will be low among SME tax payers if their tax law and regulation knowledge is low. Nikwala (2010) too adds voice on the need to understand that competence of SMEs' owners and managers are significantly reflected in the way they carryout tax planning. This calls therefore for the need to improve on tax competencies in SMEs because they are below average.In their conclusion, Tusubira and Nkote (2013) in their study of income tax compliance among SMEs in Uganda points out the need of the owners to nurture tax competence as critical. Competence refers to one capability to show that he/she has necessary skills and knowledge to apply effectively and consistently to his/her job (Tiner, 2002). According to Hill (2004), there has been little (if any) competence literature in the area of taxation among SMEs since many studies have concentrated on entrepreneurial, managerial and technological competencies. The challenges therefore faced by SMEs are related to competence since many do not possess sufficient knowledge and skills in taxation field. SMEs in Kenya too and other developing countries continually face the challenges relating to taxation which has handicapped them from complying.

In most countries, studies have been done in relation to taxation among SMES. In a study by McKerchar (1995), small business taxpayers in Australia did not possess adequate knowledge of tax laws to meet their obligations. In developing countries, significant number of changes to tax laws has created additional problems to tax payers who do not have access to sophisticated tax specialists (Oberholzer, 2008). Among these tax payers who are vulnerable are the majority of SMEs since they do not have capacity to hire tax experts. In Malaysia, many SMEs dare unregistered because they do not want to reveal themselves to tax authorities (Blackman, 2006). In a study by Lubua (2014), significant percent of SMEs in Tanzania are defaulters and that majority are not registered with the revenue authority. According to the findings by Korir (2012) in Kericho district Kenya, most SMEs never pay tax penalties and that have partially complied in terms of keeping up to date records and books of accounts. According to this study, non - compliance has been due to negative attitude by tax payers, inability to understand tax laws and a feeling that they are not paying a fair share of tax. In contrast to the findings by Korir (2012), Thiga and Muturi (2015) found out in the study in Kiambu County, Kenya that 78.29% understand taxation and comply. However, 83% of these respondents stated that their level of understanding has been enhanced by the new I-Tax system introduced by KRA.

In the study of SMEs in Nairobi, CBD, Kenya by Mativo et al (2015), a big number of SMEs tax payers do not see the importance of filing VAT. This is because they have little training on the use of ETR machine thus largely depending on technicians to give them knowledge. In the

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studies done, SMEs have been portrayed to lack sufficient knowledge in regards to taxation concepts. It is evident from these studies that SMEs are in dire need of taxation knowledge which has been an hindrance to many from filing or registering with tax collection authorities in the country. As pointed out by many scholars, there is need for sufficient competence among the tax payers so as to reduce non-compliance. This study will thus shade a new light on the important concepts that Kenya's SMEs need to have in their fingertips to boost the tax competencies. Failure to do so, the government will not raise enough revenue to finance the budget thus relying on grants or donations.

Taxation approaches

Informal sector in any country refers to any activity that is done in small scale. According to Dickerson (2010), this sector represents 40-60% of Sub-Saharan Africa's GDP. Small businesses form the informal sector but it is burdensome to tax these entities (International Finance Corporation, IFC 2013). This is because the cost of administering small taxpayers can outweigh short term revenues raised. There are taxation approaches that can be used in case of informal sector;

Presumptive approach – This is a tax approach whereby it involves indirect means of ascertaining tax liability (Ehtisham and Stern, 1991). In this definition, the term "presumptive" is used to indicate that there is a legal presumption that the taxpayer's income is no less than the amount resulting from application of the indirect method. In the paper by Thuronyi (1996), presumptive taxation can be used for any tax that is normally based on accounting record (income tax, turnover tax, and VAT or sales tax) although it is most commonly used for the income tax. Through this approach therefore according to Thuronyi (1996) helps combat tax avoidance or evasion, simplify compliance on tax payers and it encourages tax payers to keep proper books of account to avoid high tax burden if not kept.IFC (2013) defines presumptive taxation system as assessment of tax based on indicators that are easy to measure and can approximate taxable income. In Africa, presumptive approach is used but is primarily turnover based for MSEs below the VAT threshold (IFC, 2013). According to IFC (2013), tax liability under a turnover presumptive regime differs among countries;

Table 1; Analysis of tax liability under turnover presumptive regime

Country	Tax liability under turnover presumptive regime
Russia	6%
Mexico	2%
Zambia	3%
Kenya	3%
Tanzania	From 1.1% for small SMEs to 3.3% of turnover in highest bracket
South Africa	From 1% for small SMEs to 7% of turnover in highest bracket

Source; International Finance Corporation, IFC 2013 (World Bank group)

In Kenya thus, TOT introduced in 2007 has helped many small tax payers. This according to the IFC (2013) include benefits as convenient registration of tax payers, simplify reporting, ease tax payments and streamline dispute resolutions.

Direct and indirect approach– Direct and indirect taxes differ based on various definitions. According to Due and Friedlander (1973), distinction between the two taxations was based on

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the notion of "shifting". Indirect taxes thus based on this definition are easily shifted. Atkinson (1977) further points out that direct taxes may be adjusted to individual characteristics of the tax payers but indirect are levied on transactions irrespective of the circumstance of buyer and seller.In Kenya, direct taxes include Pay As You Earn (PAYE) that is based on graduated scale, corporation taxes (30% for resident and 37.5% for non-resident company), withholding tax (deducted at source from incomes as interest, dividends, royalties, management or professional fees, commissions, pension or retirement annuity, rent, appearance or performance fees for entertaining, sporting) and advance tax which is applicable to public service vehicles. In the report by Ernest and Young (2014),IMF, OECD and the Organisation for the European Commission all promote the shift from direct to indirect taxes to help solve the financial crisis, by reducing costs on business to make them more competitive. According to this report, indirect taxation has become more favourable than direct because it helps to raise tax revenue and reduce vulnerability to fraud or avoidance. Furthermore, indirect taxation has helped to keep up with fast changing technological environment. KRA has tried their level best to reform the indirect taxation system which is complex as it consists of many regulations and laws. Under the indirect taxation approach, SMEs need therefore to understand the laws under this approach as well as the types of indirect taxes.These include VAT, excise duty, customs duty, export duty, hotel accommodation Tax, Catering levy, second hand motor vehicle taxes, telecommunication tax, air passenger's tax and betting and gaming taxes (KRA, 2015).

Tax Crimes

Tax crimes have often been reported in most countries and are either due to tax evasion or avoidance. Many individuals and organizations usually view tax payment as a burden that takes away their share. No wonder Albert Einstein in his famous quote argues that the hardest thing in the world to understand is income tax. According to Webley (2004), SMEs represent a high risk group in most countries because they are numerous, their income is neither fixed, their commercial set-ups can lack the well-developed structures for record keeping, independent audit of accounts and cash handling that help to minimise risks of under-reporting as in larger businesses. According to Wenzel (2002), tax evasion entails taxpayers deliberately misrepresenting the true state of their affairs to the tax authorities to reduce their tax liability and includes dishonest tax reporting, such as declaring less income, profits or gains than the amounts actually earned, or overstating deductions. On the other hand, Wenzel defines tax avoidance is the legal use of tax laws to reduce one's tax burden. Thus, tax avoidance is taking full advantage of the loopholes to attract least incidence of tax. In these two definitions, there seems to be a thin line between tax evasion and avoidance but all are tax crimes that result to non - compliance.

Most countries are after ensuring that all sectors comply by honouring their tax liabilities on time. This dream can only be achieved if tax compliance terminology is understood by every individual and organization in the country. SMEs face a number of challenges in regards to taxation which thus hinders them from complying. This has led to high cases reported relating to tax evasion and avoidance. Many empirical studies have been done which helps understand the reasons for SMEs not comply with taxation regulations. According to Mason and Calvin (1984), increased detection probability and severity of penalties and sanctions increase tax compliance. According to OECD (2004), general acceptance of tax regime depends perceived fairness of procedures involved in decision making of the country. Wenzel (2002) further states that perceived inequity increases tax evasion among SMEs because they are managed at individual level. This study will thus look at the tax crimes as the source of tax non – compliance among SMEs.According to Webley (2009), the main reasons for non-compliant

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behaviour include: equity (that the system treats them unfairly compared to others, and that the government is doing too little with the revenue it collects), opportunity for non-compliance, individual differences (those who do not comply tend to be male, younger, egotistical and have positive attitudes towards tax evasion and negative attitudes towards taxation authorities), social norms (believes that non-compliance is widespread thus more likely not to comply themselves) and dissatisfaction with revenue authorities (belief that revenue authority is inefficient or unhelpful).OECD (2004) in the tax compliance model further gives factors affecting non-compliance as shown in table 2 below;\

Table 2; Factors affecting tax compliance

Factor	Generic characteristics
Business profile factor (B)	Structure, size, age of the business, type of activities, focus, financial data and its business intermediaries
Industry factor (I)	Size, major participants, cost structures, profit margin, industry regulations, working patterns, industry issues (level of competition, seasonal factors and infrastructure issues)
Sociological factors (S)	Cultural norms, ethnic background, attitude to government, age, gender and educational level
Economic factors (E)	Investment, demographic interest rates, tax system, government policies, international influence, markets and inflation
Psychological factors (P)	Greed, risk, fear, values, fairness or equity and opportunity to evade

Source; OECD (2004)

In a study by Johnson et al (2002) in Russia, Ukraine, Poland, Romania and Slovakia, noncompliance is due corruption which makes many not to remit the tax. Study done by Nurtegin (2008) found out that SMEs in USA are non-complying due to tax rates, complexity of tax laws corruption and due to the nature of firm ownership. In Canada, the reasons for noncompliance as cited by Tedds (2000) in the study include tax rates, corruption, firm size and age, legal organization of the business and ownership. In a Malaysia, Jabbar (2009) found out that SMEs are faced with major income tax difficulties which include inadequate record keeping and documentation, tax complexity, business legal form and tax compliance costs. In Nigeria, Atawodi and Ojeka (2012) found out that high cases of noncompliance among SMEs are due to tax rates, complexity of tax laws, lack of proper enlighten and multiple tax rates.

Kenyan SMEs are not an exception since they face many challenges in regards to tax compliance. In a study done by Marti et al (2010) in Kerugoya town, Kenya, most tax payers view tax as an obligation while others view it as a liability. According to the study, tax evasion is high because tax payers feel that there is unfair divisions or categories of taxes, hostile tax laws enforced by KRA and that many tax payers have partially obeyed the accounting systems of keeping up to date books of account. Kamau et al (2012) in their study states illegal accounting practices have resulted in tax avoidance and evasion in Kenya. In a study by Korir (2012) in Kericho town, Kenya, most SMEs do not comply with tax regulations and laws in place because of negative attitude by tax payers, inability to understand tax laws and a feeling that they are not paying a fair share of tax. From these studies, it is evident that SMEs commit tax crimes which leads to non-compliance due to various challenges they face. The study thus will help the SMEs to understand these crimes as major causes of non-compliance and try to avoid them.

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Tax audit

Auditing is an independent examination of the books and accounts of an organization by duly appointed persons (Awe, 2008). In their definition of the term auditing, the American Accounting Association (AAA, 1971) states that it is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between these assertions and established criteria and communicating the results to interested users. Tax audit is a taxation concept is derived from auditing because it aims at examining the tax status of an organization. According to definition in the Financial Dictionary, tax audit refers to the process in which the tax collection agency reviews the reports of an individual or company to see if all income, deductions, and/or credits reported accurately reflect reality. The Policeman theory by Awe (2008) bares it all and that in taxation, monitoring of the systems at unspecified times needs to be done just like what policeman does when guarding a place. In Kenya, KRA is the main tax collection agency and thus there is need for SMEs to understand that whenever they are randomly checked, they should not feel that they are discriminated. In the long run, tax auditors will help detect and prevent errors and frauds in SME. The following are the main reasons why KRA conduct tax audits according to the findings by Mirera (2013);

(i) To assist in collecting more tax revenue necessary for the budget, maintaining economic and financial order and stability.

(ii) To ensure that satisfactory returns are submitted by the tax payers

(iii) To organize the degree of tax avoidance and tax evasion

(iv) To ensure strict compliance with tax laws by tax payers

(v) To improve the degree of voluntary compliance by tax payers

(vi) To ensure that the amount due is collected and remitted to government

Most of the times, SMEs delink themselves from the tasks that could enable them overcome tax audit traps by tax authorities. One way to is to establish and implement the internal audit functions in the enterprise. Zhang and Gao (2012) notes that there has been concerns that internal audit contribution to SMEs performance is relatively under researched despite the rising concerns for corporate accountability. In regards to accountability, SMEs in Kenya needs to comply by keeping proper books of account to determine turnover and remit tax on time. Tax crimes (mainly tax avoidance and evasion) violate the requirements of accountability. An internal auditor's role in the recent times has changed from traditional audit approach to a more proactive value added approach by partnering with management (Leung et al., 2003). Their main responsibility is to strengthen the internal control system and the risk management procedures (Spira & Page, 2003). Furthermore, internal auditor helps in highlighting problem areas to be addressed, prevent potential problems, deter or detect fraud and other crimes (Harrer, 2008; Henschel, 2008). Notably, the efforts of internal auditor will not be in vain since he/she will ensure that internal controls that ensures smooth running of the enterprise are in place. In the event that tax audit is carried out, the SME will have all its systems working and the issue of non-compliance will not arise.

METHODOLOGY

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Library research design was used to find answers for the research question during the month of July 2015. The University libraries used during the study were the Catholic University of Eastern Africa (Langata and Gaba Campus Eldoret). The study used purposive sampling strategy was employed in this study. The researcher adopted document analysis data collection technique whereby secondary data was obtained from books, government documents, relevant journal articles, publications from private and public institutions. The data was later analyzed using qualitative techniques (Saunders, 2007).

RESULTS AND DISCUSSIONS

This study addressed only one research question, "**what are the important taxation concepts SMEs in Kenya need to understand to improve their compliance**"? Following below are the answers to the research question.

The principal objective of taxation – Tax is the main source of revenue for the government which helps in regulating the economy and its activities (Anyanwu, 1997). SMEs should not feel discriminated when taxes are enforced by the tax authorities because of this principal objective. However, there is the need to overcome the challenges which hinders many enterprises from complying with tax laws. Lack of sufficient skills and knowledge concerning taxation concept is the main challenge echoed by many scholars such as Jackson &Milliron, 1989; Nikwala, 2010; Tusubira & Nkote, 2013). This has been attributed as the main cause for tax non-compliance among SMEs. Other challenges noted among SMEs which affect tax compliance include; constant changes in tax laws (Oberholzer, 2008), fear to face tax authorities (Blackman, 2006), lack of up to date books of accounts, negative attitude towards taxation because of the feeling that it is unfairly administered (Korir, 2012), negligence to file VAT because of the view that ETR machines are complex to operate (Mativo et al., 2015). Thus, SMEs in Kenya need to passionately understand that it's the responsibility of every individual or organization to meet the principal objective of taxation. This is only done by overcoming the various challenges which hinders them from attaining this objective.

The existing taxation approaches – This is an important taxation concept because it helps to understand each approach used by the government. There are various approaches used which include presumptive, direct and indirect taxation. Under presumptive approach, taxation is based on indicators which are easily monitored in approximating taxable income (IFC, 2013). Accounting records in this approach becomes handy (Thuronyi, 1996). In Kenya for example, presumptive tax is usually administered under the TOT whereby tax liability for informal sector mainly is 3% for annual turnover below Kshs. 5 million. Under the direct taxation approach, adjustment of tax rates is based on individual characteristics of tax payer (Atkinson, 1977). In Kenya, taxes such as PAYE, Corporation, withholding and advance are paid under this approach. In Kenya, indirect approach has been always perceived to be complex but KRA has tried to reform it to keep up with technological changes. As defined by Atkinson (1977), indirect tax approach is levied on transaction whereby in the Kenyan context include the VAT, excise duty, customs duty, export duty, hotel accommodation Tax, Catering levy, second hand motor vehicle taxes, telecommunication tax, air passenger's tax and betting and gaming taxes. Having this approaches in mind, Kenya's SMEs will be able to comply with the requirements of each thus enabling the government meet its principal taxation objective.

Tax crimes – This is a common term used when tax non-compliance is high. Tax crimes are often common when the entire taxation practice is viewed as a burden or liability (Marti et al., 2010). Webley (2004) echoes that SMEs represent a high risk group in most countries. SMEs

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thus need to understand that in the event they avoid paying taxes deliberately, they are committing the common crimes associated with tax which include tax evasion and avoidance. As noted by Wenzel (2002), tax evasion is deliberate misrepresentation of true state of affairs to reduce tax liability. On the other hand, avoidance occurs when tax payer takes full advantage of the loopholes to attract least incidence of tax. In many studies done, tax evasion and avoidance among SMEs have been due to perceived inequity (Wenzel, 2002), increased corruption (Johnson et al., 2002; Nurtegin, 2008), tax rates, complexity tax laws (Atawodi & Ojeka, 2012), inadequate record keeping (Jabbar, 200; Korir, 2012), illegal accounting practices (Kamau et al., 2012). According to Webley (2004), different factors influence attitudes and behaviors of small businesses in relation to tax compliance. Webley (2009) gave the main reasons for non-compliant behaviour among small businesses to include to perceived inequity of tax system, having opportunity for non-compliance, individual differences, social norms (believes that non-compliance is widespread thus more likely not to comply themselves) and dissatisfaction with revenue authorities (that they are inefficient or unhelpful).OECD (2004) in the tax compliance model too gave the factors as business profile, industry, sociological, economic and psychological to influence tax compliance. Tax non-compliance amounts to commission of tax crimes which are as a result of various causes or reasons. SMEs in Kenya need to avoid committing these crimes or else they risk facing the increased probability of detection, severe penalties and sanctions recommended by OECD (2004) to enforce tax compliance.

Tax audits – Auditing in general has been viewed as an objective systematic process to obtain and evaluate evidence in an organization (AAA, 1971). In line with is definition thus, there is need to understand that tax audits are usually carried out to examine books of accounts as a way of monitoring the tax system (Awe, 2008). Fears have always engulfed most SMEs in Kenya whenever they here that KRA wants to audit their transactions. They feel that they are too inferior as compared to the large enterprises which have huge potential than them to handle such audits. Mirera (2013) notes that KRA does the tax audits with the sole aims of assisting the government to collect more revenue ensure submission of satisfactory returns and ensure voluntary compliance with tax laws. Given this challenge, this study based on findings by Zhang and Gao (2012), Spira and Page (2003), Harrer (2008) and Herischel (2008) has chat the way forward to assist SMEs owners or managers in Kenya in accepting tax audits with ease. In this essence, there is need to have an internal auditor whose function will be primarily to enforce accountability (Zhang and Gao, 2012), strengthen the internal control system, highlight problems to address, prevent potential problems, deter or detect fraud and other crimes (Harrer, 2008; Herischel, 2008).

In the Table 3 below, important taxation concepts have been summarized which the researcher thinks that SMEs in Kenya need to effectively understand to enhance their tax compliance.

Table 3: Taxation concepts and Benefits for increased tax compliance among SMEs in Kenya

TAXATION CONCEPT	BENEFITS

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The principal objective of taxation	Overcome challenges hindering the compliance to attain the objective
Existing taxation approaches	Understand types of taxes to pay and the need to estimate annual turnover of the enterprise
Tax crimes	Eradicate tax evasion and avoidance practices given severe penalties and sanctions
Tax audits	Establish internal audit section in the enterprise to act as 'watchdog'

Source: Integrated by the author from Literature, 2015

CONCLUSIONS

In regard to entrepreneurship, most countries in the world are trying to refine both existing and potential enterprises. Kenya's SMEs need to improve their technical understanding of taxation aspect. They need to aggressively show their interest in complying with the laws and regulations set by the tax authority. In the long run, their contribution efforts towards the economy will continually be treasured. Based on the findings of the study the researcher recommends the following;

1. There is need for Kenya Revenue Authority in partnership with other organization to carryout intense sensitization to enable SMEs understands the taxation aspect given the ETR machines and new I- Tax system.
2. More knowledge should be made available to Kenya's SMEs to understand the factors that affect their tax compliance.

FUTURE RESEARCH

The researcher suggests the need to do further research on the following taxation aspects in relation to SMEs;

1. Factors affecting tax compliance of SMEs in Kenya
2. The effect of taxation reforms on the financial performance of SMEs in Kenya.

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