Effect of Social Norms on Turnover Tax Collection among Micro and Small Enterprises in Meru Town, Kenya

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Abstract:- The turnover tax has achieved a significantly low level of tax compliance since its introduction. This research examines social norms' impact on turnover tax collection among Micro and Small Enterprises (MSEs) in Meru Town, Kenya. This study used the Theory of Planned Behavior (TPB) to evaluate the influence of social norms on tax compliance. An Analysis of 367 Micro and Small Enterprises (MSEs) revealed a statistically significant positive correlation between social norms and tax compliance (β = 0.149, p = 0.007). The report proposed promoting robust tax compliance standards and improving tax education programs via seminars and advertising.

Keywords:- Social Norms, Taxpayer Turnover, Micro And Small Enterprises, Kenya

I.   INTRODUCTION

Tax compliance is a critical element of economic governance, particularly in developing countries like Kenya, where informal sector businesses, such as Micro and Small Enterprises (MSEs), play a significant role in the economy. Despite the introduction of turnover tax (TOT) to streamline taxation for MSEs, compliance rates remain low, hindering the government's revenue collection efforts. This study explores the influence of social norms on turnover tax compliance in Meru Town, Kenya, using the Theory of Planned Behavior (TPB) as a framework. By examining the role of social norms, this research aims to provide insights that could inform strategies to improve tax compliance within the MSE sector.

II.   CONCEPTUAL FRAMEWORK OF THE RESEARCH

The collection of taxes, particularly within the informal sector, poses significant hurdles for Kenya, despite its crucial role in national development (Egwali & Kareem, 2019). Tax administration collects taxes from both corporations and people in the form of income tax, value-added tax (VAT), and enterprise tax, among other forms. Turnover tax (TOT) is a tax imposed on the gross revenue of a firm, excluding costs, intending to streamline taxes for Micro and Small Enterprises (MSEs). Frequently, it falls short of its income objectives, indicating problems with compliance (KRA, 2022). Within the framework of the Theory of Planned Behavior (Ajzen, 1991), this research investigates the influence of social norms on tax compliance in Meru Town.

MSEs are a fundamental pillar of Kenya's economy but face challenges in adhering to tax regulations. Small and medium enterprises (SMEs) account for more than 90% of private firms and make for over 50% of employment and GDP in the majority of African nations (UNIDO, 2020). The turnover tax was implemented to specifically target informal sector enterprises with revenues ranging from Kshs. 1 million to Kshs. 50 million, to compensate for revenue shortages. The poor compliance seen despite these efforts indicates a need for a deeper understanding of the underlying causes (Wanjohi & Mugure, 2018). Societal Norms may have a substantial influence on tax behavior.

➤ *Statement of the Problem*

Specifically among Micro and Small Enterprises (MSEs), turnover tax collection in Kenya continues to be insufficient. The objective of this research is to analyze the impact of social norms on tax compliance in Meru Town and provide options to enhance tax collection and compliance rates.

III. THEORETICAL FRAMEWORK

This research is based on the theoretical frameworks of the Theory of Planned Behavior (TPB) and the Theory of Reasonable Action (TRA). Social norms, including subjective standards, are expected to have a substantial impact on tax compliance. Theories of Planned conduct (TPB) propose that conduct is shaped by intentions, which are then impacted by attitudes, subjective standards, and perceived behavioral control (Ajzen, 1985). Norms, including subjective standards, are anticipated to have a substantial impact on tax compliance. The Theory of Planned Behavior (TPB) suggests that people are more inclined to comply with tax obligations if they see it as a standard practice (Ajzen, 1991).

IV. LITERATURE REVIEW

➤ *Intersection of Social Standards and Tax Compliance*

Societal standards, including both injunctive Norms (perceived approval or disapproval) and descriptive norms (actual conduct), have a substantial impact on tax compliance. According to Cialdini and Goldstein (2021), empirical evidence indicates that people exhibit higher levels of compliance when they perceive that others within their social network also comply with their tax responsibilities. According to Wenzel (2020), the presence of favorable societal norms on tax compliance might improve the general adherence to tax laws.

➤ *Collection of Turnover Tax*

The turnover tax is imposed on enterprises that generate annual sales ranging from Kshs.1 million to Kshs.50 million. Despite the implementation of many changes, the actual tax collection often fails to meet specified goals, mostly because of the intricate nature of legislation and difficulties in enforcing them (Oladipupo & Obazee, 2019). Successful collection of turnover tax necessitates the resolution of these obstacles and comprehension of the societal elements that influence adherence.

V. RESEARCH METHODOLOGY

➤ *Design of Research*

The present study utilizes an explanatory research methodology to investigate the impact of social norms on the collection of turnover tax. Data was gathered utilizing structured questionnaires and examined using descriptive and inferential statistical methods. From a population of 4,419, a sample of 367 Micro and Small Enterprises (MSEs) in Meru Town was chosen, resulting in a response rate of 70%. gathered through structured questionnaires and examined using descriptive and inferential statistical methods.

➤ *Collection and Analysis of Data*

The descriptive data provide a comprehensive summary of societal norms and behaviors related to tax compliance. The study used multiple linear regression analysis to evaluate the correlation between social norms and turnover tax collection. Reliability evaluation revealed a high level of internal consistency for social norms (Cronbach's alpha = 0.785) and turnover tax collection (Cronbach's alpha = 0.980).

VI. RESULTS

➤ *Calculation of Descriptive Statistics*

The survey findings revealed that the average measure of social effects on tax behavior was 4.07, but the average measure of attitudes toward tax evaders was 4.06. Turnover tax collection techniques exhibited mean scores ranging from 3.90 to 4.09, indicating significant concerns over tax collection ($r = 0.559$, $p < 0.001$). The multiple linear regression analysis results showed that social norms accounted for 31.2% of the variability in turnover tax collection ($R^2 = 0.312$, adjusted $R^2 = 0.307$). The regression coefficient for social norms was found to be $\beta = 0.149$ ($p = 0.007$), suggesting a statistically significant influence on tax compliance.

VII. DISCUSSION

The findings indicate that social norms have a significant impact on the rate at which turnover tax is collected. The observed correlation provides evidence in favor of the idea that promoting favorable societal norms about tax compliance might improve adherence to tax regulations. Mentioned results are consistent with other studies that emphasize the significance of cultural values in influencing tax conduct (Wenzel, 2020).

VIII. CONCLUSION

The Research findings indicate that social norms have a substantial influence on the collection of turnover tax among Micro and Small Enterprises (MSEs) in Meru Town. Enhancing tax income might be achieved by fostering a culture of compliance via the promotion of good social norms. The Results emphasize the need for government efforts to strengthen these standards and promote adherence to tax regulations.

SUGGESTIONS

To enhance turnover tax collection, the Kenyan government should establish initiatives aimed at fostering favorable societal norms for tax compliance. Furthermore, allocating resources to thorough tax education helps bolster compliance endeavors and tackle the obstacles encountered by Micro and Small Enterprises (MSEs).

➢ *Proposed Areas for Future Investigation*

Further study should examine the efficacy of targeted tax education programs in promoting compliance and identify other variables that impact tax behavior among Micro and Small Enterprises (MSEs). An Analysis of the function of tax administration techniques and their conformity with society standards might provide useful observations.

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