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# Effect of Tax Invoice Management System on Value Added Tax Compliance Among Restaurants in Thika Town, Kenya

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**Abstract**

This is proven by KRA's failure to meet its revenue targets for the last few years. This study sought to establish the effect of the Tax Invoice Management System on value-added tax compliance among restaurants in Thika town, Kenya. The theory that guided the study was technological determinism. The data collected from the questionnaires were analyzed through quantitative data analysis methods. The target population was 1,635 licensed restaurants in Thika. The sample size is 321 firms that are registered for VAT in Thika town. The response rate for the questionnaires issued was 76.0%, with 244 out of 321 participants providing complete responses, while 24.0% did not respond. The study found that the implementation of the Tax Invoice Management System (TIMS) had a positive and significant effect on VAT tax compliance among restaurants in Thika town, Kenya ($\beta = 0.269$, $p = 0.000$). The study recommends that the Government of Kenya strengthen policies supporting the adoption of the Tax Invoice Management System (TIMS) to enhance VAT compliance. Future studies could examine the role of taxpayer attitudes, enforcement mechanisms, and government incentives in shaping VAT compliance behavior.

**Keywords:** *Tax Invoice Management System, Value Added Tax Compliance, Restaurants*

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## 1. Introduction

In developing countries, taxpayers and tax administrations must cope with more difficult environments with fewer resources. Some issues, such as privacy, the benefits and costs of public/private partnerships, and corruption, are common to both developing and developed countries, but differ in relative importance in particular countries. Other issues, such as how new technology may or should influence the way a country's tax system or particular taxes are designed and administered. may be more important in developing countries (Bird & Zolt, 2008).

VAT importance covers two levels: the common European market and national markets. Therefore, the European Commission is interested in the harmonization of VAT rates in EU countries. The harmonization process is based on the directive that fixed the principal determinants of the common VAT system in the EU (Cnossen, 2022). The efficiency of VAT rates should be maximized following the tax experts' recommendations in order to create a common VAT system. Moreover, a single rate should be proposed, with only a few exemptions and a broad tax base. For some services and goods, only two reduced rates are required, with

values that are not lower than 5%. In the EU, this harmonization process was complex and very long. The theoretical framework is still affected by many transitional provisions. On the other hand, there are many special exemptions from European Commission common rules that are accorded in an individual way to EU countries.

Value Added Tax, abbreviated as VAT, is charged on applicable goods and services, making it an indirect tax (Hassan, 2015). This indicates that VAT is a consumption tax as it is charged at the point where transfer of ownership of goods and provision of services takes place. Ideally, VAT seeks to increase government revenue as it broadens the tax base. In some countries, such as India and Malaysia, VAT is known as Goods and Services Tax (GST) as it is imposed on consumption of taxable goods and services (Bidin, Marimuthu, Derashid, Idris, & Ahmad, 2016). Whilst VAT or GST improves revenue collection, it directly impacts on prices of commodities. It is for this reason that VAT policy implementation must be critically reviewed by the government in that higher prices of commodities may lower consumption, which may result in a reduction in VAT collections.

A Tax Invoice Management System (TIMS) plays a crucial role in ensuring tax compliance by streamlining the process of generating, issuing, and managing tax invoices by legal and regulatory requirements. Governments and tax authorities worldwide mandate that businesses maintain accurate records of their transactions to facilitate proper tax reporting and prevent fraudulent activities such as tax evasion and underreporting of income. A well-structured TIMS ensures that every invoice issued adheres to prescribed tax standards, including essential details such as the seller's and buyer's information, unique invoice numbers, descriptions of goods or services, applicable tax rates, and the total payable amount. By integrating automation, businesses can minimize errors, reduce administrative burdens, and enhance efficiency in tax reporting.

According to (Kenyan Law Reports, 2009), "restaurant" means any premises on which is carried on the business of supplying for reward any food or drink but does not include—(a) a bona fide works or staff canteen maintained, for the use of persons employed in any particular undertaking by that undertaking; or (b) any premises where food or drink is supplied only to persons who reside or board at, or work at, such premises. Kenya's sector of accommodation and restaurant services grew by over 56 percent in the first quarter of 2022. This represented a substantial recovery in comparison to 2021, when the sector's value added contracted by around 30 percent. In general, the Kenyan economy has been rebounding since the easing of containment measures implemented to curb the spread of COVID-19 (Kamer, 2022).

### 1.1 Problem Statement

The primary goal of a revenue authority is to collect the taxes and duties payable by the law and to do this in such a manner that will sustain confidence in the tax system and its administration. The actions of taxpayers - whether due to ignorance, carelessness, recklessness, or deliberate evasion - as well as weaknesses in a tax administration, mean that instances of failure to comply with the law are inevitable. Therefore, tax administration should have in place strategies and structures to ensure that non-compliance with tax law is kept to a minimum (OECD, 2021). However, tax compliance in Kenya is still very high despite the use of technology being made mandatory when registering, filing tax returns and paying taxes required by the government from taxpayers. This is proven by KRA's failure to meet its revenue targets for the last few years.

According to the KRA Annual Revenue Between July and October 2023, revenue collections amounted to Kshs 600,000 million against a target of Kshs 650,000 million, resulting in a deficit of Kshs 50,000 million. Revenues declined by 10% compared to the same period in 2022. In October 2023, collections totaled Kshs 150,000 million compared to a target of Kshs 160,000 million, resulting in a performance rate of 93.8% and a deficit of Kshs 10,000 million. Revenues declined by 11% compared to October averages over the period 2023/24.

This indicates a pressing need for the government and tax authorities to reassess their strategies to promote tax compliance and meet revenue targets. This study aimed to investigate the effect of the Tax Invoice Management System on value-added tax compliance among restaurants in Thika Town, Kenya.

## 2. Literature Review

### 2.1 Technological Determinism Theory

Technological determinism affirms that changes in technology exert a greater influence on societies and processes than any other factor. One academic sees it as more important than international politics, misdistribution of wealth, gender or class differences, etc. The soft view sees it as strong, but responding to social pressures, the hard view does not (Smith, 1994). Determinism took root when people attributed agency to technology. In the 18th century, the notion of progress was developed (the steady moral and material improvement). It is the use of science in the pursuit of human betterment. (Smith, 1994) also defines technological determinism as the belief in technology as a key governing force in society.

An alternative, weaker view of technological determinism says that technology is serving a mediating function because, despite leading to changes in culture, it is actually controlled by human beings. When control of technology slowly reduces from being in the hands of a few human beings, it passes completely into the control of technology itself. In this case, it is referred to as autonomous technological determinism. Another critique of technological determinism is that technology never forces itself on members of society. Given the proliferation of new technologies in modern capitalism, the Technological Determinism debate is continually revisited (Omosa, 2022).

Henry Adams saw the electric dynamo as replacing the power of the cross as the primary force in civilization.20th-century critics like Lewis Mumford were less emotional. He countered that warfare and religious monasticism were forces that sparked and spread technologies. He worried about the threat technology posed to social and spiritual progress. Later, he saw us moving too fast blindly. He saw the "Myth of the Machine". The machine, rather than the human condition, became the comparison between countries. Jacques Ellul saw technique as the evil factor. This includes machines, organizational practices, and a manner of thinking that is inherently mechanistic. Langdon Winner saw it as even more out of control and volatile. He said "we do not use technologies as much as live them" (Smith, 1994).

The positive side of technological determinism is that it acknowledges the importance of technologies and their power since they dramatically change the way we live, helping to create new entities in this physical environment. For instance, the emergence of personal computing, according to Ceruzzi, was indeed socially shaped, and the evolution of military technologies also had significant influences on the new technology pattern in the future. However, according to technological determinists' beliefs, technology is uncontrollable and unpredictable by

humans, causing people to feel helpless in front of the explosion of this new era. On the other hand, from the readings, two authors are not technological determinists, so they believe the theory oversimplifies technological change. The theory also provides misleading thinking and a passive attitude, suggesting that technology focuses our minds on adapting to technological change, rather than letting humans feel empowered (Lin, 2018).

## 2.2 Empirical Review

### 2.2.1 Value Added Tax Compliance

In the year 2013, the Value Added Tax Act was adopted and implemented; at this time VAT policy faced several drawbacks from both the business owners as well as the government. Since the inception of the VAT, the taxman has removed some provisions and added others to the Act. The most noteworthy changes comprise removing the Value Added Tax remission; exclusion of a lowered rate of twelve percent, combination of previous subordinate regulations and the main regulations, reducing the scheduling of 8 to 2, as well as raising the rates of zero-rated tax charges and exempting basic supplies (Ernst & Young, 2016). VAT is collected at specified points by registered persons who remit it to the Commissioner. Since the tax is paid by the final consumer of products, registered persons serve solely as VAT agents in collecting and paying the tax.

Value-added tax is a relatively new tax. It was designed by two people, independently, in the early 20th century. To Wilhelm Von Siemens, a German businessman, the VAT was a way to resolve the cascading problems that arose in implementing gross turnover taxes and sales taxes. To Thomas S. Adams, an American, the VAT was a better version of the corporate income tax. In practice, governments have implemented the VAT largely as an improved sales tax. European countries, for example, have largely used the VAT to reduce or eliminate other sales taxes. The countries continue to maintain separate corporate income taxes. Many European countries enacted a VAT in the 1960s and 1970s. Other countries followed in the 1980s and thereafter (Tax Policy Center, 2020).

VAT was introduced in Kenya with effect from 1 January 1990 to replace Sales Tax, which had been in operation since 1973. The basic law was contained in the VAT Act, Chapter 476 of the Laws of Kenya, read together with the Regulations stemming from the Act. The VAT Act, Cap. 476 was repealed, and a new VAT Act came into effect on 1st September 2013. Presently, VAT in Kenya is governed by the VAT Act, No. 35 of 2013, and the VAT Regulations, 2017. The Kenya Revenue Authority (KRA), which was established under an Act of Parliament in 1995, is mandated to administer and enforce the VAT legislation. VAT in Kenya is chargeable on: taxable supplies of goods or services made by a registered person in Kenya; and the importation of taxable goods and services.

### 2.2.2 Tax Invoice Management System

Naibei et al. (2023) did a study in Kisumu on the impact of the Tax Invoice Management system on VAT compliance by private firms in Kisumu City, Kenya. The study aimed at investigating the impact of the Tax Invoice Management system use on VAT compliance. The study used a descriptive research design. A sample of 233 registered firms was selected. Data was collected using self-administered questionnaires from personnel in the finance department of the selected firms. The data was analyzed by regression analysis to reveal relationships between the variables. The study revealed that effective and regular use of the Tax Invoice

Management system had a positive impact on VAT compliance with R = 0.622, significant at a 95% confidence level ($p<0.005$). Inspection of business firms by tax authorities had a positive relationship with VAT compliance ($R=0.15$, $p=0.003$). They further recommended that the KRA should encourage effective use of the Tax Invoice Management system by ensuring that all firms do not merely install the gadgets but also use them for each transaction. This could be achieved by regular but impromptu inspections.

Emmanuel Eilu (2021), Lecturer at Uganda Christian University, researched the Adoption of Electronic Fiscal Devices (EFDs) for Value-Added Tax (VAT) Collection in Kenya and Tanzania: A Systematic Review. He used the systematic review method, and the research described in his article investigated challenges encountered in the adoption of EFDs in Kenya and Tanzania. The review concluded modeling recommendations, extracted from seven existing studies, in terms of the technology-organization-environment (TOE) framework (Tornatzky & Fleisher, 2021). This model is an effort to provide a potential guide for successful EFD adoption in East Africa. In the technology context, for EFDs and their related systems to be widely adopted, they must be: user-friendly; robust; compatible with legacy systems; and differentiated according to types of businesses.

### 2.3 Conceptual Framework

A conceptual framework is a graphical presentation of the relationship between the independent variable (IV) and the Dependent variable (DV). Different scholars have defined it differently. According to Camp (2001), a conceptual framework is a structure that the researcher believes can best explain the natural progression of the phenomenon to be studied. The conceptual framework presents an integrated way of looking at a problem under study. The independent variable in this study was the Tax Invoice Management System, while the dependent variable was Value Added Tax Compliance.

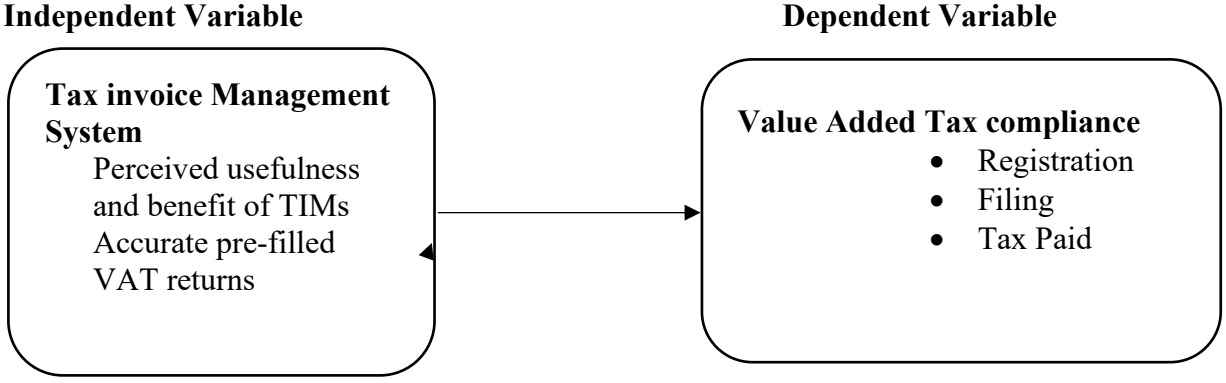


**Figure 1: Conceptual Framework**

According to Khan (2018), data analysis is a process of collecting, transforming, cleaning, and modeling data to discover the required information. The data collected from the questionnaires were analyzed through quantitative and qualitative data analysis methods. Quantitative methods gave information about numbers and group results according to the frequency of occurrence. The qualitative method describes the phenomenon or answers that cannot be represented in numerical form. The data was collected and summarized using Percentages and Microsoft Excel. The data was thereby presented by use of tables, pie charts.

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## 3. Methodology

According to Cooper and Schindler (2010), a research design is a strategy or framework that. This study adopted Explanatory research as its research method. Exploratory design explores why something occurs when limited information is available. It can help increase the understanding of a given topic, ascertain how or why a particular phenomenon is occurring, and predict future occurrences. Explanatory research can also be explained as a "cause and effect" model, investigating patterns and trends in existing data that haven't been previously investigated (George & Merkus, 2021). According to Scott & Marshall (2005), population, in its most general sense, a population comprises the totality of the people living in a particular territory, but it has a more specific meaning in statistics. The target population was 1,635, and the sample size was 321 licensed restaurants registered for VAT in Thika town, KRA, (2024). Figure 2 showed that the response rate for the questionnaires issued was 76.0%, with 244 out of 321 participants providing complete responses, while 24.0% (n = 77) did not respond. The high response rate suggested effective engagement strategies, such as clear communication, participant interest, or incentives.

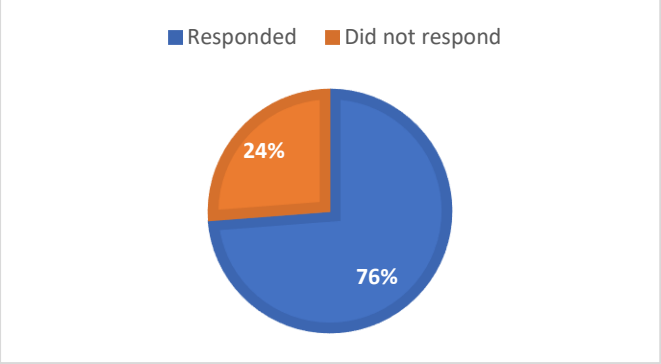


**Figure 2: Response Rate**

### Reliability Analysis

To assess the reliability of the instruments, internal consistency was evaluated using Cronbach's Alpha. The alpha coefficient ranges from 0 to 1, with higher values indicating greater reliability. As noted by Mugenda (2008), a coefficient of 0.7 is generally considered acceptable, while a value of 0.7 or higher signifies good reliability. Table 1 showed that for the construct of VAT compliance was measured using a scale consisting of five items. The reliability analysis yielded a Cronbach's alpha value of 0.823, which is well above the acceptable threshold of 0.70. The tax invoice management system construct was assessed using a five-item scale. The reliability analysis produced a Cronbach's alpha value of 0.718, which exceeds the minimum threshold of 0.70.

**Table 1: Test of Reliability**

| Factor | Number of Items | Cronbach Alpha score | Conclusion |
|---|---|---|---|
| VAT compliance | 0.832 | 5 | Reliable |
| Tax Invoice Management System | 0.718 | 5 | Reliable |

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## 4. Results and Discussion

### 4.1 Descriptive statistics

#### 4.1.1 Descriptive statistics for Tax Invoice Management System

The descriptive statistics for the questionnaire items related to the Tax Invoice Management System provide valuable insights into respondents' perceptions and experiences. The statement The Tax Invoice Management System works smoothly without any significant technical issues had a mean response of 3.93 and a standard deviation of 1.026. For the statement, the instructions for using the Tax Invoice Management System are clear and easy to follow; the mean response was 3.62 with a standard deviation of 1.026. The statement I know necessary to use the Tax Invoice Management System had a mean response of 4.03 and a standard deviation of 1.040. For the statement The Tax Invoice Management System process is efficient and does not take too long, the mean response was 3.97 with a standard deviation of 0.970. Finally, the statement I am satisfied with my experience using the Tax Invoice Management System and I use it often had a mean response of 4.07 and a standard deviation of 0.876.

**Table 2: Descriptive statistics; Tax Invoice Management System**

| | N | Mean | Std.Dev |
|---|---|---|---|
| The Tax Invoice Management System works smoothly without any significant technical issues. | 244 | 3.93 | 1.026 |
| The instructions for using the Tax Invoice Management System are clear and easy to follow. | | 3.62 | 1.026 |
| I know it is necessary to use the Tax Invoice Management System. | | 4.03 | 1.040 |
| The Tax Invoice Management System process is efficient and does not take too long. | | 3.97 | .970 |
| I am satisfied with my experience using the Tax Invoice Management System, and I use it often. | | 4.07 | .876 |

#### 4.1.2 Descriptive statistics for Value Added Tax Compliance

The descriptive statistics for the VAT compliance questionnaire items provided insights into respondents' perceptions and behaviors regarding VAT compliance in Table 3. The statement I am registered for VAT compliance had a mean response of 3.94 and a standard deviation of 1.013. For the statement, I find the payment and filing process of VAT easy and simple, the mean response was 3.74, with a standard deviation of 1.060. The statement I filed VAT compliance returns on time had a mean of 4.04 and a standard deviation of 1.040. For the statement, I made the correct amount of payment, the mean response was 4.01, with a standard deviation of 0.973. Finally, the statement I have registered as a taxpayer had a mean of 4.05 and a standard deviation of 0.876.

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**Table 3: Descriptive statistics; Value Added Tax Compliance**

| | N | Mean | Std.Dev |
|---|---|---|---|
| I am registered for VAT compliance. | 244 | 3.94 | 1.013 |
| I find the payment and filing process of VAT easy and simple. | | 3.74 | 1.060 |
| I file VAT compliance returns on time. | | 4.04 | 1.040 |
| I make the correct amount of payment. | | 4.01 | .973 |
| I have registered as a taxpayer. | | 4.05 | .876 |

### 4.2 Correlation Analysis

Correlation analysis investigates the connections between two or more variables to assess the intensity and direction of their relationship. By employing statistical tools like Pearson's correlation coefficient, it measures how variations in one variable relate to changes in another. A positive correlation suggests that variables move in tandem, whereas a negative correlation implies they move in opposite directions. This method is essential for uncovering potential associations and guiding the development of future research hypotheses (Ummah, 2019). Table 4 presents the correlation analysis between predictor variables and VAT tax compliance as the dependent variable. The results indicate that VAT tax compliance has a strong, positive, and significant correlation with TIMS at 44.0% ($p = 0.041 < 0.05$). This implies that the effective use of TIMS contributes to higher levels of VAT compliance.

**Table 4: Correlation Results**

| | VAT compliance | Tax Invoice Management System |
|---|---|---|
| VAT compliance | 1 | 0.440* |
| Tax Invoice Management System | 0.440* | 1 |
| Sig. | 0.041 | |

**. Correlation is significant at the 0.05 level (2-tailed).

### 4.3 Regression Analysis

The model summary showed that the Tax Invoice Management System has a positive correlation to VAT compliance at 44% (R= 0.440). The results reveal that the Tax Invoice Management System caused a variation of 19.3% or ($R^2$=0.193 and adjusted $R^2$ =0.187) on value-added tax compliance.

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**Table 5: Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | 0.440 | 0.193 | 0.187 | 0.37894 |

a. Predictors: (Constant), Tax Invoice Management System

ANOVA shows an F statistic of 291.830 and p-value =0.000< 0.05, indicating that the variation caused by value-added tax compliance was significantly explained by the model.

**Table 6: ANOVA**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 135.701 | 1 | 135.701 | 291.830 | 0.000 |
| | Residual | 112.567 | 242 | 0.465 | | |
| | Total | 248.268 | 243 | | | |

a. Dependent Variable: Value Added Tax Compliance

The hypothesis $H_{01}$ stated Tax Invoice Management System has no significant effect on value-added tax compliance. This study aimed to investigate the effect of the Tax Invoice Management System on value-added tax compliance among restaurants in Thika Town, Kenya. The study found that the Tax Invoice Management System has a significant effect on value-added tax compliance, p=0.000<0.05.

**Table 7: Regression Coefficients**

| **Model** | | **Standardized Coefficients** | | **Unstandardized Coefficients** | **t** | **Sig.** |
|---|---|---|---|---|---|---|
| | | **B** | **Std. Error** | **Beta** | | |
| 1 | (Constant) | 0.126 | 0.059 | | 2.136 | .021 |
| | Tax Invoice Management System | 0.269 | 0.067 | 0.228 | 4.015 | .000 |

a. Dependent Variable: Value Added Tax Compliance

### 4.4 Discussions of Findings

The objective of the study was to determine the effect of the Tax Invoice Management system (TIMS) on VAT tax compliance among restaurants in Thika town, Kenya. The study through the correlation matrix found that Tax invoice mana. The results indicate that VAT tax compliance had a strong, positive, and significant correlation with TIMS r= 0.440 (p = 0.041 < 0.05). This implied that the effective use of TIMS led to higher levels of VAT compliance. The regression analysis showed that TIMS had a positive and significant effect on VAT tax

compliance, β = 0.269, p = 0.000. This indicates that the implementation and use of TIMS significantly enhanced VAT tax compliance among restaurants in Thika town. The Null hypothesis H01 was rejected. The findings of this study align with Naibei et al. (2023), who found that regular and effective use of TIMS positively influenced VAT compliance among private firms in Kisumu, Kenya.

## 5. Conclusion

The objective of the study was to determine the effect of the Tax Invoice Management System (TIMS) on VAT tax compliance among restaurants in Thika town, Kenya. The study concludes that the effective implementation of TIMS enhanced VAT compliance by simplifying invoice processing and ensuring accurate record-keeping. The null hypothesis was rejected, confirming that TIMS significantly enhances VAT compliance.

## 6. Recommendations

The study recommends that the Government of Kenya strengthen policies supporting the adoption of the Tax Invoice Management System (TIMS) to enhance VAT compliance. Given the significant effect of TIMS on VAT compliance, policymakers are encouraged to mandate its use among all VAT-registered businesses and provide incentives such as tax rebates or reduced penalties for firms that consistently utilize TIMS effectively.

The study recommends that the Government of Kenya strengthen policies supporting the adoption of the Tax Invoice Management System (TIMS) to enhance VAT compliance. Future studies could examine the role of taxpayer attitudes, enforcement mechanisms, and government incentives in shaping VAT compliance behavior.

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