

**Influence of Perception of Corruption on Tax Compliance Among
Manufacturers in Makadara Sub-County in Nairobi County**

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DEDICATION

This research study is dedicated to my family for their support. I also send my appreciation to all those who supported me both materially and morally in the entire period of this study.

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ABSTRACT

In Kenya, both electronic and print media have continuously reported many incidents of corruption, cases of public spending wastage and high perception of corruption in the government. Corruption in the government institutions including KRA cannot be ruled out. As a result, the government and the Authority have adopted mechanisms for addressing this problem in order to reduce the perception of corruption. The mechanisms were clearly spelt out in the KRA 7th Corporate Plan for the period 2018/19-2020/21 under the theme of 'Integrity Programme'. The Authority aimed at reducing Corruption Perception Index (CPI) to bolster its corporate image and improve on tax compliance. The CPI increased from 32% in 2017 to 39% in 2019, while it reduced to 34.2 % in FY 2020/21. This was contrary to the expectations that it would have reduced with 10% by the end of FY 2020/21. Several corruption surveys undertaken by the Authority have established that contrary to expectations, the CPI had increased (KRA, 2019; KRA 2021). Based on the above observations, the researcher initiated this study with an aim of establishing how perception of corruption influences tax compliance the among listed members of KAM in Makadara Sub- County, Nairobi County. The study was carried out among Members of KAM in Makadara sub-County in the County of Nairobi. Makadara Sub County was purposively selected as it hosts most of the industries (166 or 29.5 % of the 562 listed by KAM in the County) were located there. The study utilized both primary data and secondary data. Simple Random sampling techniques was used and sample size of 116 members was selected from the target population of 166 manufacturers. The instrument used for data collection were Questionnaires which were distributed to the sampled respondents while secondary data was gotten from the public sources, library, internet and KAM office among other sources. The study achieved a response rate of 85.3% (99 respondents of 116 responded). The results were tested for reliability using the Cronbach's alpha which was estimated at 0.826 (86.2%). Analyses was done using Excel and SPSS tools and results presented using descriptive and inferential statistics. The results of this study showed that the overall Corruption Perception Index among the KAM members was 1.06 (35.2%), at the range of 0 to 3. This value shows a moderate corruption levels in KRA. From measures of corruption indices analyzed, Corruption Practice Index was found to be 1.01 or 33.7%, Corruption Pressure Index at 0.87 or 29.0%, Corruption Spread Index at 1.09 or 36.3% while the future corruption index was 1.25 or 41.7%. These indices point to moderate levels of corruption in KRA. In addition, the findings of the study showed that corruption pressure, Magnitude of corruption and future expectation of Corruption had a significant contribution to tax compliance (p-value = .023 , P <.001, and .012 respectively). However, the result show that the p-value for corruption practices, 0.163, is greater than 0.05 significant level. The study recommends that KRA need to address the existing forms of corruption by tightening the anti-corruption measures envisaged in the 8th KRA Corporate Plan.

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ABBREVIATION AND ACRONYMS

ACECA	:	Anti-Corruption & Economic Crimes Act
CPI	:	Corruption Perception Index
EACC	:	Ethics and Anti-Corruption Commission
EABI	:	East Africa Bribery Index
KAM	:	Kenya Association of Manufacturers
KRA	:	Kenya Revenue Authority
TI	:	Transparency International

DEFINITION OF TERMS

- Corruption:** As defined or explained in Anti-Corruption and Economic Crime Act, Laws of Kenya (Government Printer). Generally, it is abuse of public authority for personal gains (Rosid, 2016).
- Corruption Perception Index:** A global Index used for ranking corruption perception among various countries (TI, 2020).
- Government Actors:** Refers to the members of the Three Arms of the government namely; Legislature, Judiciary and the Executive (Constitution of Kenya, 2010).
- Perception:** A belief or opinion held by many people and based on how things seem to be (Oxford University Press, 2000; Cummings *et al*, 2009).
- Perceived Corruption:** Belief on the assumed level of corruption (TI, 2020; (Campbell, 2013).
- Tax Compliance:** The degree to which a taxpayer complies or fails to comply with tax laws in a given jurisdiction (Kirchler, 2007).
- Tax:** Is a financial charge or other levy imposed upon a taxpayer by a state or the functional equivalent of a state to fund various public expenditures (Income Tax Act, Government Press).
- Tax Morale:** Intrinsic motivation to pay tax willingly (Torgler, 2000b; Luttmer and Singhal, 2014).
- Tax Burden:** Measure of tax imposed to individual or firms based on equity (Collins Dictionary of Business, 2005).
- Taxpayer:** Is a person or organization (such as a company) subject to a tax on income (Income Tax Act, Government Press).

CHAPTER ONE: INTRODUCTION

1.0 Introduction

This chapter introduces the aspect of the influence of Corruption Perception on Tax Compliance. It further presents statement of the problem, research objectives, research questions and the justification for this research.

1.1 Background of the Study

Corruption in taxation is a global concern in both the developed and developing economies as it affects tax morale of the taxpayers causing them not to comply with tax laws in many jurisdictions in the world (Mina et al. 2019). Studies done by (Bertinelli et al. 2006) on the correlation between corruption and tax compliance showed a negative impact of corruption on tax compliance as it deters tax payments. The debate on corruption in tax administrations has been gaining momentum in the last decades, with a particular focus on tax evasion, tax compliance, tax morale and efficiency in revenue collection. There is a nexus between corruption and tax morale and tax compliance as some individuals or firms pay bribes to reduce or avoid payment of taxes and while in some instance bribes can be equated or substituted for tax payments (Bird, 2015).

In a self-assessment system, tax revenue collection depends on voluntary declaration of taxable income which shows a significant shift in the relationship between the state and taxpayers (Fossat & Bua, 2013; Moore, 2014). According to (Besley & Persson, 2014), developing countries have been mobilizing lower tax revenues due to corruption in government. Thus, corruption is one of the major hindrance and obstacle to improved tax compliance and morale in the developing countries leading to lower tax revenues.

1.1.1 Global Perspective of Corruption in Taxation

The problem of corruption and taxation caused policy makers and other experts from various disciplines to hold global symposiums to deliberate on ways of mitigating corruption. Such symposiums included the one sponsored by Asia Development Bank Institute held at Sydney in Australia in April 2017. The focus of the symposium was on tax and corruption. Another one was held at Johannesburg in South Africa and it was sponsored by the Southern African Institute of Chartered Accountants. It dwelt on the problem of corruption in tax administration in Africa. In the two symposiums, it was observed that despite the regional variations and each

country-specific aspect, corruption was a global problem which requires attention at international level (Evans et al. 2017). Further it was noted that there was a need to come up with research approaches on how to measure the perception of corruption and its effects in tax administration among other areas of interest.

A survey conducted in Latin America established that corruption was a real problem as 44.2% of respondents indicated that they do not pay taxes because corruption was high among the tax officials in the tax authorities (Torgler, 2007). In South Africa for instance, 76% of all tax officials were found to have taken bribes while many tax authorities conceded on existence of corruption (Wang, 2010). A study based on Afro barometer micro-level data which sought to find out how petty corruption affected tax morale in sub-Saharan Africa showed that petty corruption directly reduces tax morale and also diminishes trust in the tax department, legal system and the government (Afrobarometer, 2008; Afrobarometer, 2019).

Studies conducted in many developing countries have shown that corruption and tax evasion distort development due to the revenue losses. For instance, a study done in Malawi between November 2010 and February 2011 found out that corruption was estimated at 5% of the GDP and tax evasion was between 8% and 12% of the GDP. In Namibia, tax evasion was found to account for 9% of the GDP. The above study noted that revenue loss through corruption and tax evasion represented a diversion of the financial resources away from the national budget to private spending (World Bank, 2011).

According to Transparency International report (2014), majority of African countries are perceived as very corrupt and close to 90% of citizens in the Sub-Sahara countries believed their government were corrupt. Further, TI notes that African countries have performed poorly in corruption perception index and that corruption affects a wide range of institutions and sectors and that it is rampant in the tax administration. Additionally, data from the 2013 Global Corruption Barometer shows the percentage of citizens reporting paying a bribe to officials in tax and customs administrations in the African countries is higher than the global average. Therefore, it is evident that perception of corruption in revenue administration at the global level cannot be denied. This may imply that the revenue lost through corruption could end up affecting the provision of the public services by the relevant governments and this may affect the taxpayers' willingness to pay taxes (Transparency International, 2014). Further, the Global

Corruption Barometer survey report for Africa in the 2019 showed that more than half of the citizens in the surveyed countries were of the view that corruption was getting worse and that more than one individual among four citizens had paid bribe to get public service (Transparency International, 2019).

1.1.2 Local Perspective of Taxation and Corruption

A World Bank report in 2018 indicated that Kenya's corruption perception indicator was 15.38 percent in 2017 and that this was a slight improvement to the previous indicators (World Bank, 2018). According to Maina (2019), the country loses close to a third of its annual public budget and about one percent of its GDP to corruption. These losses are impediments to both economic growth and development. Ghura (2002), observed that in the sub-Saharan countries, tax revenue-to -GDP ratio decreases as a result of corruption. Countries with higher corruption levels tend to have various dysfunctions in their public delivery systems and that improvements in the systems do not necessarily require high government spending but rather a reduction in corruption (Gupta, Davoodi, & Tiongson, 2002).

Locally in Kenya, cases of persistence of corruption in various government ministries and departments continue to be reported in the annual reports produced by the Ethics & Anti-Corruption Commission. The Commission conducts annual corruption perception surveys in the country to gauge the level of perception of corruption among various public entities. The Commissions' survey for the year 2018 reported that 49.4 % of the respondents had a perception that corruption was rampant in the Country (EACC, 2018). Other than the EACC survey, the East African Bribery Index in 2014 reported that majority of respondents from Kenya (83%) described the level of corruption in the country as high (Transparency International, 2014).

According to a Corruption Perception Survey conducted by the Kenya Revenue Authority, the overall external stakeholder's corruption perception index increased by 15% from 32% index in 2017 to 47 % index in 2019. The survey noted that increase in the index could be attributed to customers relying on the information gotten from the media. Additionally, an external survey conducted in 2016/17 showed that the overall corruption perception index reduced significantly from 52.7% in 2014 to 32% in 2017, an improvement of 20.7% from 2013/14 survey. The 2016/2017 corruption perception survey for KRA showed that 34% of customers perceived

KRA to be corrupt. The main form of corruption associated with KRA was bribery (68%) followed by abuse of office at 30%. Seventy-Nine (79%) percent reported that their perception was based on word of mouth. Fifty nine (59%) percent of the respondents indicated they engaged in bribery as form of process facilitation while 40% reported that bribe was demanded by the staff (KRA, 2019). The Composite Authority's Corruption Perception Index moved from 32% in 2017 to 39% in 2019, whereas in 2021, the index reduced to 34.2% (KRA, 2021) though it was expected to decrease by 10% as per the expectation of the KRA Seventh Corporate Plan.

Due to the perception of high level of corruption, the Authority has taken seriously the problem of the corruption in its working environment by putting up a mechanism to address matters related to corruption. This is evidenced in the 7th KRA Corporate Plan for the period 2018/19-2020/21 in Chapter Five under the theme of 'Integrity Programme'. Under the programme, the Authority targeted to reduce the Corruption Perception Index from 32% in the F/Y 2018/2019 by 10% in 2020/21 (KRA, 2018). However, it managed to reduce it to 34.2% as per the corruption perception survey report released in 2021 (KRA, 2021) implying the target was not achieved as envisaged.

Addressing corruption in the government entities is crucial since its effects are widely experienced in political and socio-economic spheres as corruption is associated with risks such as; undermining the rule of the law and unsustainable development as it diminishes revenue sources among other risks. Revenue risks may eventually be translated into tax evasion, and this implies that public budget revenue is negatively affected leading to poor public services delivery and low economic growth (Mina et al. 2019). Corruption is one of the major negative factors which affect tax morale and compliance as the taxpayers feel frustrated and cheated when it is dominant and as there is possibility of unequal sharing of tax burden. It discourages taxpayers and negatively affects their compliance behavior especially when they perceive that the collected taxes may end up being misappropriated, embezzled or wasted by the public officials (Chariye, 2016). Arising from the above discussions in this part of introduction, locally the presence of corruption in the tax and customs administration is not doubtable and therefore, understanding the correlation between perceived corruption and tax compliance is of great importance to both policy makers and stakeholders.

1.1.3 Perception of Corruption

There is no standard definition of corruption but generally it points to aspects of dishonest or illegal behavior involving a person in a position of power to do something illegal or immoral (Blackburn, Bose, & Haque, 2010). Among its other definitions, it also refers to the abuse of public authority for personal gains (Rosid, Evans, & Binh, 2017). Corruption is normally identified and assessed by subjective measurements which yield to perception of corruption (Campbell, 2013). Campbell additionally argues that due to its secretive nature, most of the indicators used to identify and assess corruption are based on subjective measurements referred to as 'perception of corruption' which basically is rated on a Corruption of Perception Index (CPI).

One of the commonly global CPI used to gauge the level of corruption is the one produced by the Transparency International (Lambsdorff, 2007). Though its findings have been criticized, the index still has some relevance in pointing out the countries where one is likely to face high cases of corruption. The East Africa Bribery Index (EABI) also shows the prevalence of corruption in the public sectors in the governments of the East African Countries; Tanzania, Kenya, Uganda, Rwanda and Burundi (The East Africa Bribery Index, 2017).

In Kenya, there is widespread reporting of corruption as evidenced by numerous reports or work done by various researchers or Commissions of Inquiries, as such both print and electronic media are awash with reports of corruption perpetuated by the government actors in the country. The Transparency International Corruption index for the year 2019 ranked Kenya at number 137 out of 180 countries surveyed with a score of 28 out of 100. This showed that Kenya has been scored poorly over the years and this to some extent is an indication of prevalence of corruption in the country (Ali et al. 2014). Similarly, the EACC is required by the law to provide both quarterly and annual reports on corruption cases under investigations by the Commission. These reports over the years have presented many cases of both grand and petty corruption perpetuated by various government actors where huge public funds have been lost. The effect of lost public funds that had been collected by the government through taxation could end up negatively affecting tax compliance among the tax payers who includes but not limited to the local manufacturers. Eventually, this could discourage them from being compliant (EACC, 2018).

The issue of perception of corruption has also been given a wide berth in the 7th KRA Corporate Plan for the period 2018/19-2020/21 under the theme of ‘Integrity Programme’ where the Authority seeks to address integrity issues among them corruption and fraud in its revenue administration. Under this programme, the Authority has planned to reduce the Corruption Perception Index from 32% in the F/Y 2018/2019 by 10 % in F/Y 2020/21. The Authority stated that it would achieve this through; the creation of awareness, inter-agency collaboration, corruption related audits, staff investigations, system reviews and automations (KRA, 2018). However, the CPI in the F/Y as per KRA Corruption Perception Survey for that period was 34.2 % above the expected target.

1.1.4 Concept of Tax Morale

There is no standard or direct definition of what constitutes tax morale but different scholars have come up with various explanations on what the term tax morale implies. Torgler & Schaffner (2007), cited tax morale as the intrinsic motivation to pay taxes ranging from peoples’ attitude towards paying taxes, individual’s willingness to pay taxes to the moral obligations to pay taxes. They stressed on the importance of understanding the influence of tax morale and linked tax morale to tax compliance as they noted that when tax morale is high, tax compliance will be proportionately high too. Among other definitions, the OECD defines tax morale as one’s intention to participate in compliance of tax laws with full integrity (OECD, 2019). Kirchler, *et al* (2008), referred tax morale as the taxpayer’s perception of authority and trust. He related it to the adoption of the social norms. Alm (1993) postulated that positive tax morale is likely to reduce the probability of tax evasion while Kirchler *et al* (2008) linked low tax morale to probability of tax evasion or non-compliance. They argued that an increase in reputational costs (feelings of guilt, social stigma) decreases tax evasion.

1.1.5 Concept of Tax Compliance

According to (Mohd & Mustapha, 2011), tax compliance is the fulfillment of tax laws, declaration of the correct income & expenses and the payment of taxes on time. From the above explanation, it can be concluded that tax compliance implies complying with the tax laws, accurate declaration of income & expenses and timely settlement of tax liabilities. Tax compliance is measured in four ways; registration, filing, computation and payment compliance. Registration compliance relates to the portion of registered taxpayers with the

appropriate tax obligations. Filing compliance relates to the proportion of tax returns filed on time (Mohd & Mustapha, 2011). Computation compliance measures the percentage of the correct tax liability that is correctly computed and reported.

Tax payment compliance measures the portion of the computed tax liability that is paid within the timelines of tax laws. Taxpayer facilitation involves the provision of taxpayer services giving proper guidelines, instructions and simplified ways of filing tax returns and educating taxpayers on their rights, duties and obligations. Torgler & Schaffner (2007), and (Ajzen & Fishbein, 1980) have shown how behavior, attitudes and subjective norms can influence tax compliance levels. Hence, understanding factors which affect the compliance is crucial. Alm & Torgler (2005) have highlighted the need to understand such factors by relying on a social psychological approach among other methods of studying the aspect of tax morale and compliance.

A study by Damayanti *et al* (2015) have illustrated the role of tax payer's perception of the government and society in relation to improvement on tax compliance. In their study, they conclude that the strong desire for tax payers to comply with tax obligations is among other things greatly influenced by the subjective norms and tax payer perception of the government. The perception of the government as noted is underscored by the fact that relationship between the tax payer and government/tax authority is a contract that involves intricate relationship between the two as is based on expectation of a fair reciprocal relationship (Feld & Frey, 2007). For the purpose of this study, the government and tax authority were treated as one and the same thing.

Perception of corruption by taxpayers has negative implication on tax compliance and this has been demonstrated in studies done by (Bertinelli, Bourgain, & Leon, 2006), (Rosid, Evans, & Binh, 2017) (Damayanti et al. 2015) among other scholars. Given the reported many cases of corruption in Kenya, assessing the implication of perception of corruption on the tax compliance among the taxpayers is important as it will among others, guide the policy makers to come up with the relevant reform policies that can discourage corruption among the government actors and embolden the taxpayers to be compliant. This in the long run, may end up improving on the tax growth.

1.1.6 Kenya Association of Manufacturers

Manufacturing sector in Kenya remains one of the focal point in the delivery of Kenya's Vision 2030 which is intended to provide a sustainable growth path in the country. The Economic Recovery Strategy for Employment and Wealth Creation Report (Economic Recovery Strategy For Wealth, 2015) indicates that Kenya's manufacturing sector as a source of export contributes 13% of the Gross Domestic Product. The manufacturing industry accounted up to 12% GDP in 2015/2016 (GOK, 2017). The manufacturing sector in Kenya has a high potential for employment creation and acts as a stimulus for growth in other sectors such as agriculture and hospitality. It therefore offers a significant opportunity for export expansion (KNBS, 2014). The sector in Kenya contributes 10 percent to the country's GDP and employs over 2 million people (KAM , 2019). KAM's services are delivered through four main pillars: Policy Research and Advocacy, Business Competitiveness Services, Membership Support and Development and Sound Structures and Institutions. In addition to Nairobi, KAM has established five other regional chapters; Athi River, Coast, Eldoret, Nakuru and Nyanza/Western. The chapters exist to develop strategies, priorities and action plans to lobby for policy reforms around various issues at the regional levels (KAM , 2019). KAM members are categorized into 14 sectors, 12 of which are in processing and value addition while the other two offer essential services to enhance formal industry.

The KAM Sub-sectors are defined by the type of raw materials companies import or the products they manufacture. These sectors include; building, mining & construction, chemicals & allied, energy, electrical & electronics, food & beverages, leather & footwear, metal & allied, automotive, paper & paper board, pharmaceutical & medical equipment, plastics & rubber, textiles & apparels, timber, wood & furniture, and agriculture/fresh produce. Manufacturing contributes 11% of Kenya's GDP per capita and makes up the largest section of the country's industrial production. Agro-industry (food and beverages), textiles in the Export Processing Zones (EPZs), pharmaceuticals, sectors related to construction, such as cement and metals, and high-end furniture are the strongest subsectors in formal manufacturing (KAM , 2019).

Manufacturers in the country have in one way or the other experienced corruption and this is evidenced in a Survey carried out by KAM in the year 2019. The survey gave out some of the reasons that caused stagnation and decline of the Kenyan economy between the months of January and March as rampant corruption and increased bureaucracy in government agencies.

The survey pointed out that this was further complicated by the delays in clearance of cargo at the ports and Inland Container Depot in Nairobi which eventually affected their production operations”. Additionally, delays in the payment of suppliers by the government led to liquidity challenges to SMEs and the cash crunch ended up damping the consumers’ purchasing power (KAM , 2019).

The survey further pointed out that economic growth in the agricultural sector was affected by “The KRA tax refund process which was too slow and was likely to have an effect on manufacturers’ cash flow, hence hampering economic activities”. The process was also worsened by the; unpredictable policy environment, heightened political rhetoric and runaway corruption. The above assertion by KAM on corruption affects the morale of its members since their business process and operations may be negatively affected and this may have negative effects on compliance.

The Association each year develops a Manufacturing Priority Agenda (MPA) to highlight action plans to address challenges hampering the growth of the manufacturing sector as a strategy to prepare Kenya for transformation into an industrial-led economy. In MPA for the year 2020, the association emphasized on the need to fight corruption both in public and private sectors since corruption is an impediment to public service delivery and private sector development. The report pointed out some of the forms under which corruption is manifested to include embezzlement of public funds.

To address the challenges of corruption, the association implored on the need to strengthen the public finance management system to enhance transparency and accountability in public financial management. Further, it called out for the promotion of the uptake of the Code of Ethics for Business in Kenya and compliance with the Bribery Act in order to foster transparency and accountability in the manufacturing sector. Additionally, the report advocated for the replacement of the cash-based accounting system with accrual-based accounting system in public finance, synchronizing the Integrated Financial Management System, Integrated Payroll and Personnel Database and iTax for the purpose of reducing ghost workers and unplanned expenditures (KAM, 2020). The above cited reports explores the need by KAM to fight corruption in order to encourage the success of the manufacturing enterprises and the eventual economic growth and development.

1.2 Statement of the Problem

Tax compliance is influenced by several factors as explained in various theoretical perspectives which among others include economic deterrence and psychological models among others (Cummings et al., 2006). Some of these factors influence the behavior of taxpayers towards tax compliance both at individual and corporate levels. To some extent this implies that those factors which drive individual taxpayer commitment to pay taxes may also filter down to the firm's action (Alm & McClellan). These factors includes among others; trust in the government or the public authorities, perceived corruption, trust in the judicial and legal system, legitimacy of the government, centralization of public services, fairness in the tax systems, tax enforcement, ethical inclination, culture and socio-demographic factors (Torgler, 2007), (OECD, 2019) The above factors variably affect morale and in one way or another impact on the tax compliance status of the tax payers depending on obtaining socio-economic environment.

Some of the key reasons why the Authority is keen on reducing the CPI is based on the understanding that perceived high levels of corruption may end up damaging corporate image or negatively affecting tax compliance. Damayanti *et al.*, (2015) pointed the nexus between corruption and tax compliance is explained in the existence of a social contract between the government and the taxpayer, where government as to create a tax environment unburdened by the inefficiencies of bureaucracy and corruption for reliability in tax compliance.

In Kenya, both electronic and print media have continuously reported many incidents of corruption, cases of public spending wastage and high perception of corruption in the government. The Transparency International, Ethics & Anti-Corruption Commission and East Africa Bribery Index similarly have reported many cases of corruption in government and even in the tax administration (EACC, 2018), (Transparency International, 2019). Given the adversity of corruption in tax and custom administrations, the government and KRA have invested heavily in the reduction of the perception of corruption as evidenced in the KRA 7th Corporate Plan for the period 2018/19-2020/21 under the theme of 'Integrity Programme'. The Authority sought to address integrity issues among them corruption and fraud in the revenue administration by undertaking measures aimed at reducing Corruption Perception Index from 32% in the F/Y 2016/2017 by 10% by 2020/2021 (KRA, 2018). However, according to the

KRA Corruption Perception Survey report released in the FY 2020/2021 the Authority did not manage to reduce the CPI by 10% but it achieved a reduction of up to 34.2 % which was above the expected target (KRA, 2021).

To reduce the CPI, the Authority has invested heavily in corruption prevention mechanisms that includes; undertaking corruption related audits, inter-agency collaboration, creation of awareness, staff investigations, automations and system reviews (KRA, 2018). However, the impact of this heavy investment in the fight against corruption through integrity initiatives on tax compliance and tax revenue collection has not been adequately documented by both policy makers and the academia.

Based on the above discussion, perception of corruption can act as an impediment to tax compliance especially when the taxpayers are of the view that the government may not reciprocate their efforts of paying taxes by providing effective and efficient public service deliveries. Given the fact that the CPI was not decreasing as expected despite the Authority's efforts to reduce it as envisioned in the Plan, the researcher found it necessary to investigate how the perception of corruption influences the tax compliance. Hence, the purpose of undertaking this study among the listed members of KAM in Makadara Sub-county in the County of Nairobi was intended to come up with findings and recommendations to inform both the government, the Authority and other stakeholders on the appropriate policy reforms required to improve on the situation.

1.3 Objectives of the Study

The general objective of this study is to find out the influence of perception of corruption on tax compliance among the Manufacturers in Makadara Sub-County in County of Nairobi.

1.3.1 Specific Objectives

The specific objectives of this study were to; -

1. To find out how the Corrupt Practices affects tax compliance among the members of KAM in Makadara Sub-county.

2. To find out the effects of Corruption Pressure on the tax compliance among the members of KAM in Makadara Sub-county.
3. To find out the effects of the Magnitude of Corruption on the tax compliance among members of KAM in Makadara Sub-county.
4. To find out how the Expectations about the Future Corruption affect the tax compliance among the members of KAM IN Makadara Sub-county.

1.4 Research Questions

This study sought to answer the below research questions; -

1. How does the Corrupt Practices affect tax compliance among the members of KAM in Makadara Sub-county?
2. What are the effects of Corruption Pressure on the tax compliance among the members of KAM in Makadara Sub-county?
3. How does the Magnitude of Corruption affect the tax compliance among members of KAM in Makadara Sub-county?
4. How does the Expectations about the Future of Corruption affect the tax compliance among the members of KAM IN Makadara Sub-county?

1.5 Significance of the Study

1.5.1 Kenyan Government

The findings of this study will assist the government and the Authority at large to initiate policy reforms which address the problem of corruption among its actors to improve on tax compliance among the manufacturers by offering the appropriate public services as a reciprocal gesture.

1.5.2 Kenya Association of Manufacturers

The members of the Association will benefit by appreciating the role they are expected to play as stakeholders in the fight against corruption in order to assist the government to provide them with a conducive production environment. This would subsequently result to good governance, low cost of doing business and efficient public service delivery systems.

1.5.3 Researchers

The findings and the recommendations of this study will provide useful insight on the correlation between perception of corruption and tax compliance in the context of manufacturing sector. Further, the research will provide knowledge for future researchers who would be interested to cover up gaps that this study did not address and thereafter make the appropriate recommendations.

1.6 Scope of the Study

This study examined the influence of perception of corruption on tax compliance among the members of KAM in Makadara Sub-county of the County of Nairobi. The study sought to examine how the perceived corruption among the government actors'/tax officials affected tax compliance among the manufacturers in the Sub-county. The Sample size of 116 respondents was drawn from the target population of 166 members situated in the Sub-County. This sample was representative enough and rendered the study cost effective and time saving. The study was conducted in the month of September 2021 and the instrument of data collection were questionnaires which were distributed among the sampled respondents. The individual respondents were drawn from among the members of top management of the selected manufacturing.

1.7 Limitation of the study

The study sought to establish the influence of perception of corruption on tax compliance among KAM members in Makadara Sub County by examining the effect of perceived forms of corruption, trust in government and enforcement measures on compliance.

Though carefully designed, this study had some limitations both in scope and data. Firstly, this study only examined the perception of corruption on the tax compliance. However, tax compliance is diversely affected by an array of factors, as shown in the existing literature. As such certain factors that influence tax compliance were not covered in this study. The researcher however reviewed existing literature on these areas, in the hope that these can be investigated in a different study.

Secondly, tax compliance being a highly sensitive topic, a few respondents were less inclined to reveal their true compliance status. To address this situation, the questionnaires used framed in such a manner that indirect questions were asked, and then the responses were used to determine the level of compliance. Given the fact that corruption and its relationship to tax evasion is also a sensitive issue some of respondents who hold key position in their firms were evasive in their response and in some cases they referred the research assistants to other staff below them. To address this, the data collectors endeavored to cross check the information provided and its accuracy by using various questions intended to check on validity on the information availed.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The research aims to investigate the influence of perception of corruption on tax compliance among the manufacturing firms in the Makadara Sub-county in the County of Nairobi, Kenya. This chapter presents the theoretical perspective and empirical literature relevant to the study. The chapter also presents the conceptual framework, the research gap and summary of the literature reviewed.

2.2 Theoretical Literature Review

In its attempt to examine the influence of perception of corruption on tax compliance among the listed members of KAM in Makadara Sub-County, this study was based on the Fiscal Psychology Theory that was also corroborated by both Principal-Agent theory and Fiscal Exchange Theory. However, the researchers also examined literature based on economic or deterrence theories and other theories on the corruption phenomenon. While economic model related to tax evasion plays a great part in predicting how a tax payer may respond towards tax compliance, understanding the influence of socio-psychological factors can also help tax authorities and policy makers to take into account the behavioral factors that affect tax compliance and morale among the tax payers. Understanding of socio-psychological factors can go a long way in assisting the authorities to design the appropriate policy reforms to address matters related to tax compliance.

Most of economic based theories on tax evasion and compliance view a taxpayer as a rational utility maximizer, who is interested in economic motives among them profit maximization and consideration of the probability of detection or being caught (Sombart., 1968). The proponents of this school of thought postulate that it is based on this thinking that a taxpayer decides on whether to comply or to engage in tax evasion after gauging the benefits related to tax evasion and being complaint. Therefore, as a rational utility maximizer, the taxpayer may evade tax payable if the benefits of evasion or non-compliance are higher than the possible punishment that can be applied upon being discovered or detected through audit or investigations (Allingham & Sandmo, 1972). However, researchers have realized over the time that relying on the economic or deterrence theories to enforce compliance may result in negative behaviour

leading to an increase in non-compliance (Murphy & Harris, 2007). It is on this understanding that other non-economic factors, for instance sociological and psychological factors or determinants have been found to play a great role in influencing tax compliance and morale of the tax payers (Damayanti et al., 2015).

Scholars among them, Fishbein and Ajzen (1975) have attempted to explain how taxpayer's behaviour is influenced by socio-cultural factors like; attitude, norms, beliefs and perceptions. They argue that trust in the authorities and power influences tax compliance and morale such that when the taxpayers have trust in the authorities or government and they receive the anticipated public services, they may be willing to be compliant. This is because the taxpayers feel motivated, and their morale is uplifted. On the contrary, if the trust in the authorities is low, their tax morale is affected, and they may not be willing to comply with tax laws and regulations. The theory of Fiscal Psychology though it as some elements of economic considerations, it put more emphasizes on how the behavior of a taxpayer is influenced by socio-psychological factors as herein discussed.

2.2.1 Fiscal Psychology Theory

The Fiscal Psychology Theory was advanced by (Schmolders, 1959) emphasizing on loss of motivation of the taxpayers not to pay taxes when direct benefits of tax payments are not visible (Hasseldine & Bebbington, 1991). The Theory postulate that the relation between taxpayers and tax authorities is a psychological contract that depends on how much the two parties have mutual trust and the commitment to the contract (Damayanti & Supramono., 2012). This contractual relationship between the taxpayer and the government is reciprocal in nature and it is dependent on taxpayer perception on the services provided by the Government (Damayanti & Supramono., 2012). This implies that if the services provided by the Government seem to reciprocate the taxes paid, then taxpayers may be willing to be more compliant. If for example, the taxpayers perceive that the government actors are corrupt this may affect the social contract since corruption reduces the willingness to accept tax payments (Timmons & Garfias, 2015). Corruption causes mistrust on the government among the taxpayers and this may trigger them to disengage from the reciprocal relationship with it, leading them to behave in opportunistic manner (Melgar, Rossi, & Smith, 2008).

The Fiscal Psychology Theory considers both economic and psychological factors which induce taxpayers' behavioral responses to the tax system. Fiscal psychology deals with the cognitive and contextual aspects in the taxpayer's decision process and tries to explain the behavioral implications of tax compliance. The Fiscal psychology theory induces taxpayers' psychological accounting that describes the set of individuals' cognitive operations to organize, evaluate, and keep track of financial activities (Kogler et al., 2015). Generally, people have various psychological accounts for instance to pay for their rent, food, or leisure activities. Drawing on this theory in the context of taxes, taxpayers might designate a separate psychological account for taxes due in the future. In this case tax payments would not be psychologically deducted from personal income, but from a designated separate account, making it less likely that paying their taxes will be perceived as a loss.

The proponents of the fiscal psychology theory argue that individuals are influenced by the psychological context in which decisions are made. As the tax system builds upon fiscal interactions of actors in the field including taxpayers, tax practitioners, tax authorities, and the government (Alm et al., 2011), an individual's tax behavior is embedded in the social structures (Pickhardt & Seibold, 2014). Thus, the action of providing public services by the government may result in improved compliance behavior and tax morale of the taxpayers (Timmons & Garfias, 2015). The interaction climate between taxpayers and tax authorities creates a psychological tax contract between the state and her citizens. This psychological tax contract portrays an existence of a contractual relationship between the state and taxpayers. The psychological tax contract contends that taxpayer will remain tax compliance if public goods and services are provided while political process is legitimate and is perceived to be fair (Kogler et al., 2015). Fiscal psychology theory was relevant in this research as the theory analyze the resistance to direct taxation of individual taxpayers according to their general mentality to taxation which rests upon the broader tax mentality of their nation. The fiscal psychology theory emphasizes on the impact of tax ethics on compliance decisions as a result of psychological loss that would be incurred by breaking moral standards (Alm & Torgler, 2011). The taxpayer as mentality of opposing the payment of taxes when there is general belief that the authorities do not provide the requisite public services and the taxpayer may look for other ways of dodging tax payments. Generally, tax compliance and morale depends on several factors among them; demographic features, economic status and social capital which includes

confidence in government among others. This theory was key in establishing the nexus between perceived corruption in the government or authorities and tax compliance.

2.2.2 Theories on Corruption Phenomenon

Corruption remains a complex phenomenon with no specific theory that can fully explain it. Scholars view it from various academic disciplines which include but not limited to economics, sociology and psychology among others. As such, they have developed several theories which attempt to explain why corruption occurs. These theories include the Principal-Agent Theory and the Fiscal Exchange Theory to mention but a few.

2.2.2.1 Principal-Agent Theory

The Principal-Agent theory attempts to explain the causes of corruption in government set up. The Principal-Agent-Client model illustrates that an Agent or rather a public official is employed to protect the interests of the principal or more particularly the Government. However, the Agent by greed may decide not to serve the principal but engage in activities of self-interest by perpetuating corruption to the detriment of the principal (Klitgaard, 1988). According to this theory, government actors are supposed to be accountable and to serve the public without engaging in corruption or other forms of impropriety. However, some of them choose to defraud the government resulting to losses of the collected public revenue. Once the public funds are depleted, the government is not able to provide required services to the citizens as expected. This situation may end up adversely affecting the morale of the taxpayers leading to tax non-compliance. For the principal to address the problem of corruption, the government must undertake several policy reforms in socio-economic and political challenges spheres. This may include reviewing of the relevant legislations, enhancing both external and internal controls or providing incentives which discourage corruption amongst the citizens and the public officials.

2.2.2.2 Fiscal Exchange Theory

According to Fiscal Exchange theory prudent government expenditure can motivate compliance. Hence government can improve on compliance by availing goods and services that citizens require in an appropriate manner (Levi M. , 1988). Indeed, in most cases what the

tax payers anticipates it is the provision of services as reciprocate for the payment of taxes. Therefore, the relationship between the payment of taxes and the provision of goods and services is viewed a social contract between the taxpayers and the government (Moore, 2014).

Taxpayers pay taxes to benefit from the government services (Fjeldstad & Semboja, 1998). Though it is difficult for the taxpayers to exactly point out the values of the goods and services they get from the government upon the payment of taxes, they have a belief on the expectation on what to be provided by it. However, if this it is not given as anticipated, it may affect their attitude towards paying taxes. Therefore, if a system of taxes is unjust, tax evasion may be seen an attempt by the taxpayers to adjust his or her term of trade with government ((Richupan, 1987). The postulation of this theory is crucial to this study as it enabled the researcher to establish whether the taxpayers were un-willing to pay taxes because of the perceived corruption within the government. This is informed by the fact that corruption reduces the budgetary allocation available for the public services deliveries, an aspect that may not augur well with the taxpayers

2.3 Conceptual Framework

A conceptual framework is formed by broad ideas and principals taken from relevant fields of enquiry (Reichel & Ramey, 1987).

Independent Variables

Dependent Variable

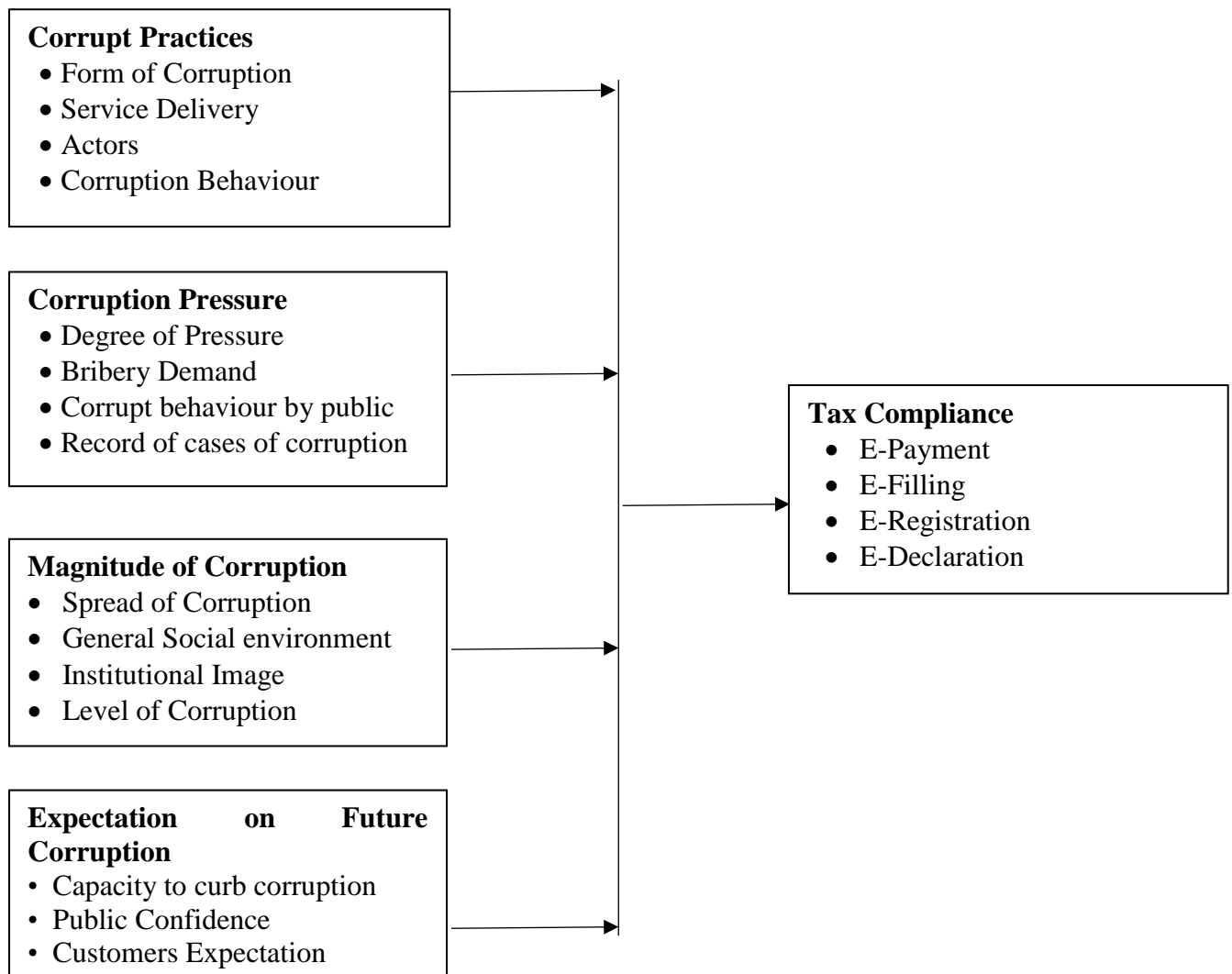


Figure 0:1 Conceptual Framework (Source: Researcher's Illustration)

2.3.1 Perception of Corruption

As established in the literature review, corruption in government and tax authorities is common and is manifested in many forms. Tax administration is often perceived as one of the sectors

most vulnerable to corruption due to complexity of tax laws, the high discretionary powers of tax officials and the low cost of punishment according to the Transparency International. Transparency International notes that corruption undermines a country's tax structure and its revenue collection capacity, resulting in significant loss of revenues and the available funding for public service provision. Corruption also corrodes the tax morality of taxpayers and erodes public trust in government institutions (Transparency International, 2019)

Corruption happens in various forms that includes but not limited to the demand or soliciting of bribes, abuse of office, extortion, fraudulent deals and embezzlement of public funds. Further, corruption in revenue administration may be systemic where individuals act together to systematically support tax evasion schemes or be involved in cases where tax officials simply exploit their position for their financial gains (Child, 2008). Kumar (Kumar, 2008) in his paper entitled "Corruption, Harassment and Evasion in Tax Collection", poses a question; *How does corrupt regime affects tasks of tax collection?* He notes that despite inspection there can be suboptimal collection of taxes in a corrupt regime because of harassment, bribery and possibility of collusion between the tax inspectors and taxpayers. However, he goes further to reveal that despite the suboptimal collections, in a corrupt regime the cost of corruption has regressive bias to tax compliance.

In regard to tackling corruption, in the developing countries, petty corruption perpetuated by revenue officials has been found to impact on manufacturing innovation (Evans et al., 2017). Corruption has been found to have negative and statistically significant effect on tax compliance (Bertinelli et al., 2006). From the above discussions, it is clear that taxpayer's compliance status may be affected by the perception of corruption arising from numerous forms of corruption the tax payers come across. This study has established how corruption perception among the manufacturers influences the tax payer compliance decisions.

2.3.2 Corruption Indices

The Ethics and Anti-Corruption Commission has developed a framework for conducting corruption perception through the corruption indices. These Indices provide an assessment of the aspects and the scope of corruption in a public institution (KACC, 2008). These include:

- 1) Corrupt Practices- This is an indicator that seeks to establish the kind of corrupt practices taking place in an institution in its functional and service delivery areas (KACC, 2008).
- 2) Corruption Pressure – this measures the extent to which taxpayers are subjected to pressure either direct and indirect to participate in unethical and/or corrupt practices.
- 3) Magnitude of corruption- this looks at the assessment by taxpayers of the prevailing outlook and spread corruption.
- 4) Expectations about the Future of Corruption- reflect the expectations of the customer/client about the capacity of the institution to curb corruption in the institution. Customers’ expectations will reflect the degree of public confidence of public institutions in handling corruption. (KACC, 2008)

2.4 Empirical Literature Review

Melgar *et al* (2008) argues that high levels of perception of corruption could have more devastating effects than corruption itself. This is because, the perception generates a “culture of distrust” towards some institutions and may create a cultural tradition of gift giving and therefore raising corruption. They further noted that corruption perception in general terms accelerates the growth of institutional instability and the deterioration of the relationships among individuals, institutions, and states. Secondly, new evidence was provided about the significant impacts of country-effects. According to their study, macroeconomic instability and income-inequality could increase perception of corruption. Hence, the instability and inequality could arise from such factors as the failure to pay the request taxes due to the perceived high level of corruption among the key actors of the government.

Tax morale has gained momentum in the last one decade even as the traditional deterrence approach to tax evasion through detection probability and severity of punishment for tax cheats continues to be associated negatively with tax compliance (Chan et al., 2019). According to tax morale is driven by economic opportunities, shadow economy, fairness and trust, social norms, and deterrence of the tax system (OECD, 2019). Perceived corruption in tax administration too continues to generate a culture of distrust and may create unfair tax system that promotes tax non-compliance accelerating the growth of deterioration in the relationship between taxpayers and tax administration and finally tax system instability (OECD, 2019).

OECD Working Number 315 (2012) reported that in South Africa, Uganda and Kenya, respectively, “Unfair tax system” and “government waste/stealing taxes” were given as main reasons by more than 8% of the respondents as to why some people avoid paying taxes in the above countries. Similarly, individual taxpayers who are satisfied with public services provision are more likely to have a tax compliant attitude in Kenya, Uganda, Tanzania and South Africa (Afrobarometer, 2019). This implies that government waste and stealing of taxes demotivate or negatively affect the morale of the tax payers leading to non-compliance.

Kato & Sato (2014) investigated the effects of corruption on the performance of the manufacturing sector at the state level in India. Their estimation results showed that corruption reduces gross value added per worker and total factor productivity. Additionally, its adverse effects were more salient in industries with smaller average firm size.

Cummings *et al* (2006) established considerable evidence that links enforcement efforts, corruption perception and tax morale. They conducted a laboratory experiments on tax compliance behaviors (Perceived corruption, Tax Morale, Tax enforcement and Tax Compliance). The researchers replicated the same methodologies using field surveys data to include demographic, socio-economic and attitudinal variables for multivariate analyses. Their main findings showed that tax morale and compliance are positively influenced by the enforcement efforts. However, the effect is less where the tax regime is perceived as unfair and corrupt. Thus one needs to understand differences in citizen attitudes toward governments and tax administration as a social norm to fully understand tax morale and compliance behavior across cultures.

Corruption in Kenya impacts negatively on the manufacturing sector and this has been evidenced by a survey carried out by KAM. The survey pointed out some of the reasons why the economy stagnated or declined between the months of January and March 2019 was as a result of; *“Rampant corruption and increased bureaucracy in government agencies which was hampering Kenya’s growth prospects.”* Indeed 21% of the respondents indicated that the economy was growing, 60% it was stagnant and 19% indicated it was declining. *The manufacturers said this was caused by delays in clearance of cargo at the port and Inland Container Depot in Nairobi which eventually affected their production operations”*. This was further complicated by the delays in payment of suppliers by government which led to liquidity

challenges from the market especially to SMEs. Therefore, the cash crunch dampened consumers' purchasing power (KAM, 2019).

The manufacturers also pointed that the economic growth in the agricultural sector was affected by "The KRA tax refund process which was too slow and were likely to have an effect on manufacturers' cash flow, hence hampering economic activities". This was further worsened by the *"Unpredictable policy environment and heightened political rhetoric"* *"Due to the current cash crunch and runaway corruption, hence the metrics not looking promising"*. The above findings by KAM on corruption demotivate or rather adversely affects the morale of its members and compliance status since their operations are negatively affected by the presence of corruption (KAM, 2019).

Roshid (2016) study on perception of corruption and its implications on taxpayers' compliance behavior based on both qualitative and quantitative data in Indonesia suggested that there was high level of perceived corruption which influenced taxpayers' attitudes and their subjective norms on underreporting tax. There was also a significant negative correlation between corruption and tax morale at a p value of 0.048 according to a study conducted to assess the impact of corruption on tax morale (Chariye, 2016). The study found that citizens feel cheated if corruption is widespread, their tax burden is not spread well and that they are not protected by the rules of law.

Torgler (2007) in a survey conducted in Latin America established that corruption was a real problem and the results showed that on average, 44.2 % of respondents indicated that people do not pay taxes because corruption was high in the tax authorities. In India, 76 % of all government tax assessors were found to take bribes with many tax authorities conceding on existence of corruption (Hindricks et al., 1999). A study based on Afro Barometer micro-level data which sought to find out how petty corruption affected tax morale in sub-Saharan Africa showed that petty corruption directly reduces tax morale and also diminishes trust in the tax department. Similarly, (Alm & Torgler, 2005) in their study found that people's trust in the legal system and on the ruling government also affects tax compliance and morale.

A study done by (Ali et al., 2014) to establish the impact of satisfaction with public services on tax morale of people in the sub-Saharan African countries (Kenya, Tanzania, Uganda, and South Africa) found significantly negative effects on taxpayers morale in Uganda and South

Africa. Results of Taxpayer Opinion Survey have also indicated that higher respect and obedience for tax authorities leads to higher tax morale and being compliant (Torgler, 2007) and that an increase in punishment and detection should not be the only strategy to increase tax compliance and tax morale. Hence, Frey (2017) argues that laws and regulations should recognize the basic goodwill of its people.

Based on the above empirical literature review, it is evident that compliance may be influenced to a larger extent by the existence of corruption in the government or in tax authorities. However, this may vary from individual to individual or depending on various factors as to how the tax payers perceive the presence of corruption within the authorities. It is for this reason this study sought to establish how the perception of corruption influenced compliance among the listed members of the KAM in Makadara Sub-county.

2.5 Research Gap

The literature review on perception of corruption and tax compliance has demonstrated a range of socio-economic and institutional factors that may influence tax payer's decisions not to meet their tax obligations. The traditional deterrence model relies heavily on audit probability and penalties as motivators of tax compliance, and neglects the psychological and social aspects of taxation and the interactive dynamics of actors in the field. In traditional deterrence approach, taxpayers sometimes may feel that they are not trusted as moral agents and refuse to act in moral ways and the tax authority regards them as potential criminals. Thus deterrence may be a necessary condition, but not the sufficient condition for all taxpayer compliance and tax morale improvement.

A review of the literature has shown that while the standard economic approaches stress the relevance of external variables such as tax rate, income, and probability of audits and severity of fines, fiscal psychology approach has shown the importance of socio-psychological variables which shape higher tax morale and compliance leading to high morale or voluntary cooperation by the taxpayers. Available literature shows a systematic shift from mechanistic recommendations on tax administration, towards an analysis of the relationship between tax morale in developing countries and individual characteristics as well as the perceived corruption, satisfaction and trust in the government. However, many studies fail to address the potential externality of corruption, tax evasion and entrepreneurship. The debate on the

influence of perceived corruption on tax compliance in Kenya has not fully be studied and therefore, it still remains an area of academic interest requiring further research in order to improve on the tax policy reforms. Hence, this work sought to fill that gap by establishing how the perception of corruption influenced tax compliance among the manufacturers based in Makadara Sub-County in Nairobi.

2.6 Summary of Literature Review

This study sought to examine the influence of corruption perception on tax compliance among the manufacturers and it was based on a socio-psychological approach to demonstrate that trust in authority or the government increases tax compliance, whereas relying on power of tax authorities to enforce tax payments may negatively affect compliance (Alm et al., 1993) and (Wenzel, 2004).

The literature as reviewed above has shown that perception of corruption and the power of the government and taxpayers' trust in it can influence tax compliance in either way (Timmons & Garfias, 2015). Further, the taxpayers expect to be reciprocated by the government for the payment of the taxes and in doing that the government must be seen to be free of corruption, have good tax laws that are not complex and be fair in the enforcement of the laws. Further, it must be legitimate, transparent and accountable to its citizens. Additionally, corruption in public institutions provides one mechanism that influences the perceived reliability of public institutions and the motivation of individuals to comply with tax laws (OECD, 2019).

Perceived corruption in the tax administration can severely worsen the motivation to contribute to the public budget if citizens are not satisfied with public services provided (OECD, 2019). The reviewed literature has given the researcher an insight of how perception of corruption influences tax compliance. The same was corroborated further under the section of empirical review where the interaction between perceived corruption and tax compliance was discussed. This study therefore, endeavoured to establish the same by conducting a survey research among the selected manufacturers in the Makadara Sub-County of Nairobi.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This research sought to examine the influence of perception of corruption on tax compliance among the listed members of Kenya Association of Manufacturers situated in Makadara Sub-County in the County of Nairobi which was found to have the highest concentration of the manufacturers compared to other Sub-counties. This chapter will describe the methodology that was used to meet the objectives of the study. It also describes in detail the research design employed, the population and sampling process, data collections procedure, data analysis methods and the ethical standards observed.

3.2 Research Design

This research relied on a survey method that employed descriptive research designs to examine the influence of perception of corruption on tax compliance among the manufacturers in Kenya. According to Creswell (2003) a research design is an organization or a predefined setup for data collection and analysis in a particular scientific pattern to achieve the objectives of study. Descriptive research design techniques were the most applicable to describes and obtain information from the respondents on corruption, trust of the government and tax enforcement measures and their influence on the tax compliance among the manufacturers.

3.3 Target Population

A population of interest in a research represents an entire group of objects with common observable distinctive characteristics (Mugenda & Mugenda, 2008; Yin, 2013). This research targeted the population of members listed with KAM based in Makadara Sub-County in the County of Nairobi, Kenya. The *Kenya Manufacturers and Exporters Directory 2020-2021 Edition* indicates that the Association has a total of 876 registered members in the County of Nairobi and this accounted for 65% of the total members registered countrywide (KAM, 2020). However, the directory includes only 562 members in the County of Nairobi who had paid up for their membership fee and thus listed with the Association. Makadara sub-county was purposively chosen among the Seventeen (17) Sub-counties in the County of Nairobi

because majority of industries (166 or 29.5 % of the 562) are concentrated here. The 166 members thus constituted the target population of this study.

3.4 Sampling and Sampling Procedure

Sampling means selecting a given number of subjects from a defined population as a representative of the whole population. The sampling activities or plan that helps the researcher in arriving at a representative sample to be used in solving the research problem is what is referred to as the sampling procedure (Mugenda, & Mugenda, 2008). This study sought to investigate the influence of perception of corruption on tax compliance among the manufacturers in Kenya. To achieve the study objective, the sampling procedure employed in this research as explained herein.

3.4.1 Sample Size Determination

A sample size is the number of study elements or units selected from the population of interest for investigation (Chandan, Singh, & Khanna, 2010). Sampling is advantageous in the sense that it saves on time and cost since it is easier to deal with a small group (sample) that represents an entire population than analyzing the whole group of interest. This study sought to establish the influence of perception of corruption on tax compliance among the 166 members of KAM located in Makadara Sub-County (KAM, 2020). This population of interest was however, less than 10,000 units hence the research adopted Modified Fishers formula to determine the desired number of respondents required for the study (Tavakoli, 2011). Using Fishers formula, the sample size for this research was estimated as shown below:

$$n = \frac{(z^2 \times p (1 - p))}{e^2}$$

Where: n = estimated minimum sample size for a statistically significant survey

Z = is the standard normal variate at 5% type 1 error (P<0.5) which is 1.96

p = is the expected proportion of the target population with observable characteristics

e = standard margin of error at 5%

Thus

$$n = \frac{1.96^2 \times 0.5 (1 - 0.5)}{0.05^2}$$

Ordinarily, this scientifically calculated formula applies to population of more than 10,000 units (Yin, 2013). However, the target population for this research is less than 10,000 units; hence the researcher modified the sample size to take into consideration of the small population of KAM members. Hence the Modified Fishers formula was employed illustrated herein;-

$$n = \frac{(n\tilde{N})}{((N - 1) + n\tilde{v})}$$

Where:

$n\tilde{}$ is the sample size for the finite population with correction factor

n represent the new adjusted sample size

N is target population

$$n = (384 * 166)/(384 + (166 - 1)) = 116$$

Thus, the sample size for this research was 116 members of KAM who were sampled from the target population. This was representative enough and rendered the study less cost effective and time saving.

3.4.2 Sampling Design and Technique

According to Saunders *et al*, (2009), samples are designed to generate representative study units that are a representative cross-section of all units from the entire study population. The goal is to give every study element an equal and known chance of being selected for study. Having identified the sample size figure of 116, the research employed simple random sampling techniques to arrive at the units of study from the target population. A randomly selected sample of n=116 cases gave an inference that was probable with a margin sampling error of +/-5% with a confidence level of 95 percent.

3.5 Measurement Tools

The study employed a Questionnaire which was modified based on the ones used by the World Value Surveys (WVSs), Afro Barometer Surveys and the ‘Guide for Corruption Baseline Survey tool’ developed by the Kenyan Anti-Corruption Commission for conducting surveys intended to measure corruption perception index within the public service (KACC, 2008). The

analyzed data gotten from the modified questionnaire was applicable in the measurement of corruption perception index and the index was useful in the determining it influences on tax compliance.

The World Values Survey is a global research project that explores people's beliefs and values including how they change over time and the influence of social and political impacts to them (Samy et al., 2016). World Value Surveys (WVSs) uses a common survey questionnaire to study the changing attitudes and values of individuals over time. It has been carried out since 1981 by a worldwide network of social scientists who have conducted representative national surveys in almost 100 countries. The WVS is a useful data source on attitude as it asks people for instance to justify cheating on taxes if they have a chance to do so or to justify claiming benefits they are not entitled to (OECD, 2019).

On the other hand, Afro Barometer Surveys is a Pan-African series of national public attitude surveys on democracy, governance, and society. Afro Barometer survey is mostly used to measure corruption perception (Kirchler et al., 2008). This study modified the questionnaires used by World Value Surveys, Afro Barometer Surveys and the 'Guide for Corruption Baseline Survey' developed by the Kenyan Anti-Corruption Commission to develop a questionnaire that was used to collect information related corruption perception and tax compliance among the members of KAM.

3.5.1 Measuring Perception of Corruption

Normally, corruption is not really measured but it is gauged on how people perceive it to be in any given time period in a particular jurisdiction by developing a Corruption Perception Index (CPI). Therefore, by use of responses from questionnaire, analyze is done to develop a CPI which is an assessment of the perceived level of corruption by the public. The questionnaire used in this study was composed of closed-ended questions and the responses were intended to measure the common corruption indicators among them the; corruption practices, corruptions pressure, magnitude of corruption and the expectation about the future of corruption and thereafter an average of the four indicators was done to come up with the CPI.

The Kenya Anti-Corruption Commission Guide for undertaking corruption survey provides for a method of calculating Corruption Practices Index in the public institutions, whereby the

responses of the respondents are multiplied by a certain number and divided by the total number of the aggregate respondents. Thereafter, the total values are added together to get the index. The resultant Value of the Index ranges between 0 and 3. Therefore, the closer the Value is to 3 the more widespread is corruption and the more the value tends to 0 the less corruption is present. The index is intended to establish the kind of corrupt practices taking place in an institution setting. Regarding Corruption pressure index which measures the degree to which the Customers are subjected to direct or indirect pressure to participate in corrupt practices in a public institution. It indicates cases where customers are asked for bribery money, gifts, or favour in order to have service provided or problem solved by the concern public official.

Hence, the pressure index measures the level of potential corruption in a public institution over a time. After multiplying total number of responses with a certain given number and dividing them with the aggregate of the respondents, the totals of all the averaged responses are added together to get the Value of the Index which ranges between 0 and 3. The closer the value to 3, the more widespread is corruption. If the value of the index tends to 0, the less the corruption spread. Other indicators are the magnitude of corruption (Corruption Spread Index) and the Expectation about future corruption index which are calculated in a similar manner as corruption practice index and corruption pressure index. After getting the indices from the Four (4) indicators they are added together to get the Corruption Perception Index. The Overall Corruption Perception Index ranges on a Score between 0 to 3 where; 0= Corruption free, > 0-1= low, > 1-2= medium, > 2-3 is regarded as high. The score can also be standardized to ranges between 0 and 10 or reflected on percentage terms of between 0% and 100 %.

Some of the questions were set out to get the respondents' belief and attitude on how corruption affects tax compliance and their trust in government. Since obtaining reliable quantitative information about tax compliance behaviour is almost impossible, indirectly phrased questions used on corruption surveys were adopted to gauge tax compliance attitude among the respondents (Kaufmann, *et al.*, 2006; (Ali *et al.*, 2013). For instance, the respondents are asked to state their opinion indirectly about consequences of not being compliant or engaging in corruptions. This was intended to ensure that the respondents do not implicate themselves or they do not give false answers due to the fear of victimization by public officials or evaders.

3.6 Data Collection

Saunders *et al.*, (2009) defines data collection as a process of gathering information on interested variables in a systematic organized fashion that enables the researchers to evaluate outcomes on variable of interest, test hypotheses and answer the research questions. The primary goal of data collection in research is to capture quality evidence that will then translates to rich data analysis and allows the building of a convincing and credible answer to questions that have been posed (Saunders, Lewis, & Thornhill, 2009). Thus data collection process is one of the most essential stages in a research especially in maintaining the research integrity.

This research basically relied on both primary data and secondary data. The primary data was collected directly from the respondents on various aspects of variables such as corruption perception, corruption forms, trust in government actors and enforcement efforts. While the secondary data was sourced from public sources, internet and KAM Headquarters among other avenues. The primary data was collected using self-administered questionnaires that produced results that were generalized, summarized and compared. To ensure integrity and accuracy of the data collected using the questionnaires, the returned questionnaires were cleaned to identify and correct any inaccurate or incomplete responses. This was necessary as way of improving the quality of the responses and maintain quality research evidence.

3.7 Data Analysis

The main drive of data analysis in research is to extract useful information from the evidence and data collected that will inform decision making based research evidence. According to (Yin R. K., 2013) data analysis is a process of cleaning, coding, transforming and modeling data to discover meaningful information for decision-making. This study generated both qualitative and quantitative data. The data collected was cleaned, coded and accurately captured in the Ms. Excel and the Statistical Packages for Social Science (SPSS Version 20) for in-depth data analysis. Quantitative data was analyzed using descriptive statistics which involved use of absolute and relative (percentages) frequencies, measures of central tendency and dispersion (mean and standard deviation). Qualitative data was analyzed based on the content matter of the responses where responses with common themes or patterns were grouped together into coherent categories. Quantitative data was presented in tables and graphs and explanations were thereof made.

3.7.1 Analytical Model

The study employed multiple linear regression models to analyze and model the relationship between perceived corruption and tax compliance.

The multiple linear regression equation was as follows;

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

Where;

Y= Tax Compliance,

β_0 - is the Y intercept or co-efficient of constant of the equation,

X₁- Corruption Practices, X₂- Magnitude of Corruption, X₃- Corruption Pressure, X₄- Future Expectation while ε - is the error term that capture the un-explainable effect on Tax Compliance

3.8 Research Quality

3.8.1 Validity

Validity is a concept that is scientifically used to evaluate the quality of research by indicating how well a test, techniques or methods actually measures the soundness of research findings (Mugenda & Mugenda, 2008; Saunders, Lewis, & Thornhill, 2009). Face construct and content validity were measured by seeking the opinion of lecturers and other professionals (in tax administration) on the adequacy of the research instruments in achieving the objectives of the study. Research validity is the accuracy and meaningfulness of inferences, based on the research results (Saunders et al., 2009). Based on their opinions, the instrument was adjusted by deleting and adding some questions or by changing the structure or lexical density of questions as appropriate (Saunders, Lewis, & Thornhill, 2009). Validity is very essential to this research as it determines the kind of questions to use in a questionnaire survey and that truly measures the variable of interest.

3.8.2 Reliability and Objectivity of the Research

Reliability is the extent to which results are consistent over time and accurately represent the characteristics of the total population under study (Yin, 2013). The Cronbach's Alpha coefficient was used to compute the reliability of the responses from the respondents. A study is reliable if the results of a study can be reproduced under a similar methodology (Yin, 2013).

Crude information from the instruments was subjected to an unwavering quality investigation from which Cronbach's co-efficient alpha was methodically, systematically and consistently computed using Cronbach's Alpha (Yin, 2013). An unwavering quality of 70% is viewed as dependable for information accumulation (Mugenda & Mugenda, 2008). The results of the results yielded Cronbach's alpha value of 0.826, translating to 82.6%. this was above the recommended minimum threshold of 70%. Research reliability was very important in this research as it showed the degree to which the employed methods or research techniques produced consistent stable results.

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This section presents the findings of the survey. In this part, the characteristics of the sample surveyed including gender, years in business and level of education as well as the major findings on perceived levels of corruptions are presented. The results are presented using descriptive statistics such as percentages and inferential statistics i.e., regression and correlation analysis.

4.2 Response Rate

Table 4.1 illustrates the response rate of the respondents that participated in the survey.

Table 4.1: Response Rate

Response	Frequency	Percentage (%)
Filled in questionnaires	99	85.3%
Un returned questionnaires	17	15.7%
Total	116	100%

From Table 4.1 above, the response rate was high at 85.3 %.

4.3 Distribution of Manufacturers in the County of Nairobi

Figure 4.1 shows the distribution of the listed KAM members in Nairobi County. From the figure below, most listed KAM manufactures (166 members) are in Makadara Sub County. These members constituted the target population for this study.

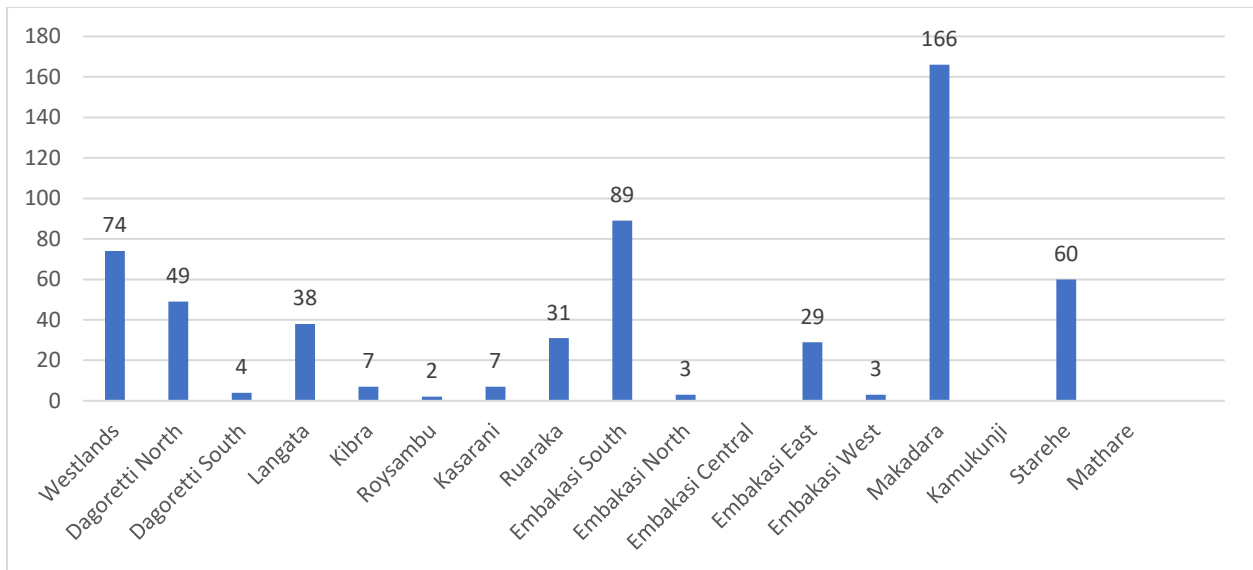


Figure 4:1 Distribution of Manufacturers in the County of Nairobi

4.4 Descriptive Analysis

4.4.1 Gender

The findings indicate that of all the respondents surveyed, 29.21 % were female while 70.71% were male. This was an indication that there were more male than female who were engaged in the manufacturing enterprises.

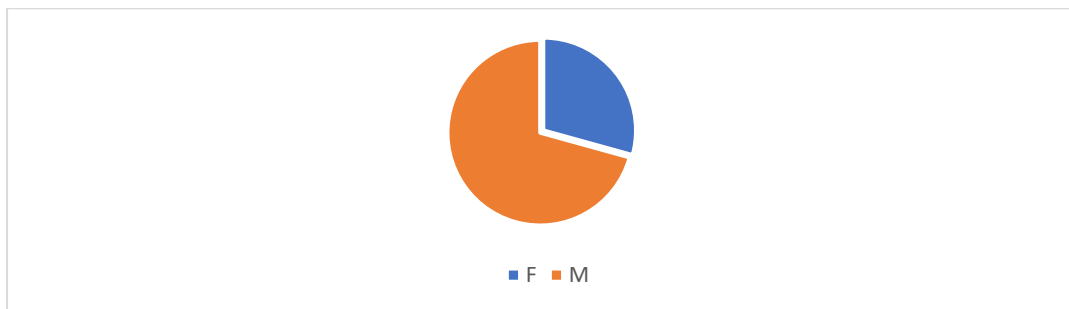


Figure 4:2 Distribution of Respondents by Gender

4.4.2 Age Distribution

Majority of the respondents surveyed in this study (75) were aged between 26-50 years old. Eleven (11) were less than 25 years old while 13 were aged between 51-75 years old. The

results show that mostly adults in their prime years are involved in the management of the manufacturing enterprises.

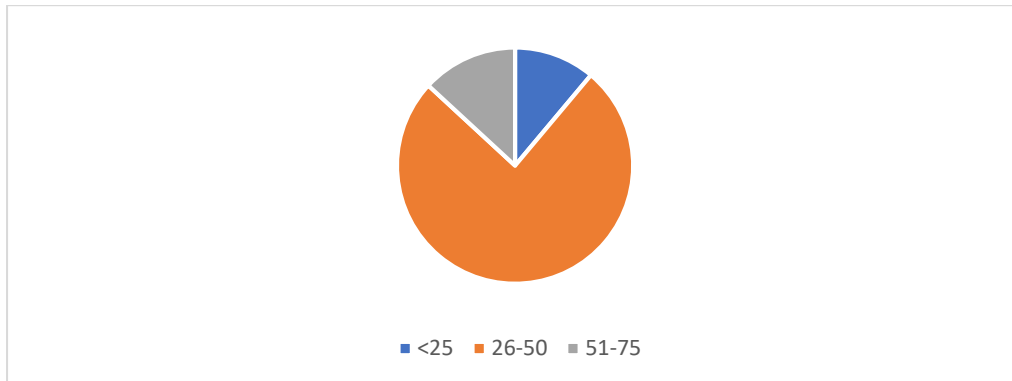


Figure 4:3 Age Distribution

4.4.3 Education

The result from this study showed that majority of the respondents (71.72%) had attained higher education. In contrast, 26.26% reported that secondary school education was their highest level of education they had attained. Only 2.02% had attained their education up to primary school level. This indicated that majority of the work force in the manufacturing sector have attained formal skills through higher learning.

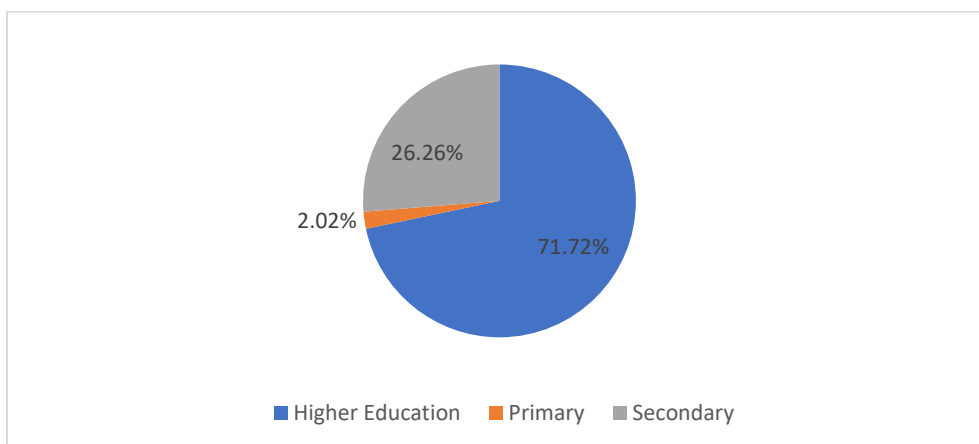


Figure 4:4 Education

4.4.4 Religion

This study established that majority of the respondents (95.96%) identified as Christians while only 4.04% reported that they were Muslims.

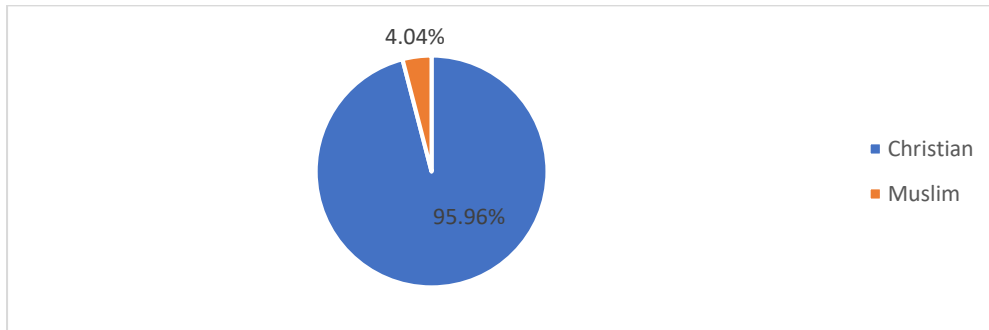


Figure 4:5 Religion

4.4.5 Business Location

The study found that most of the respondents (53.54%) were in Industrial area within Makadara Sub County. This shows that there is a higher concentration of manufacturers in Industrial area in the Sub County as compared to other locations within the other Sub Counties.

Table 4.2 Business Location

Location	Frequency
Addis Ababa Rd	1.01%
Athi River Rd	1.01%
Bamburi Rd	1.01%
Butere Rd	1.01%
Changamwe Rd	1.01%
Enterprise Rd	9.09%
Industrial Area	53.54%
Kampala Rd	6.06%
Kitui Rd	1.01%
Likoni Rd	1.01%
Lunga Lunga Rd	16.16%
Nairobi	5.05%
Nanyuki Rd	2.02%
Pate Rd	1.01%

4.5.6 Distance to the nearest KRA Offices.

The findings show that 27.08 % were located less than 5 kilometers from the nearest KRA offices. Those who were with 6-10KM were 56.25% while 2.08% were located 11.14 Km from the nearest KRA offices. Only 14.48% was located more than 15 Km from the nearest KRA offices. The results show that the KRA offices were within the reach and accessible distance of majority of the Manufacturers in Makadara Sub County. This is important to the tax payers since easy accessibility to the Offices enables them sort out tax compliance related matters.

Table 4.3 Distance to the nearest KRA Offices

Distance to the nearest KRA Offices.	Frequency
<5 KM	27.08%
6-10 KM	56.25%
11-14 KM	2.08%
>15 KM	14.58%

4.5.7 The Number of years the company has been in business

Most of the business surveyed in this study (87.76%) reported to have been in business for 9 years or more, whereas 6.12 % reported that they have been in business for 3-5 years while 5.1% have been in business for 6-8 years. Only 1.02% reported to have been in business for less than 2 years. The indication that most of the firms (87.76%) were in existence for a long period is an implication they had possibility of having interacted with issues related to the subject matter of study.

Table 4.4 The Number of years the company has been in business

Number of Years	Number of Companies (%)
0-2 Years	1.02%
3-5 Years	6.12%
6-8 Years	5.10%
9 Years or more	87.76%

4.6.8 Distribution of the companies by the sector/type of manufacturing

The table below shows the distribution of the companies by the sector/type of manufacturing they are involved in. The results show that most of the companies were in the chemical and allied sector (13.13%) while companies in the Glass comprised of just 1.01% of the total companies surveyed.

Table 4.5 Distribution of the companies by the sector/type of manufacturing

Sector/type of manufacturing	% Distribution
Building, Mining & Construction Sector	9.09%
Chemical & Allied Sector	13.13%
Energy and Petroleum sector	2.02%
Energy, Electrical and Electronics Sector	5.05%
Food & Beverages Sector	12.12%
Glass sector	1.01%
Metal and Allied Sector	8.08%
Motor Vehicle Assemblers & Accessories Sector	11.11%
Paper & Board Sector	8.08%
Plastics & Rubber Sector	8.08%
Printing and Publication sector	2.02%
Service and Consultancy Sector	7.07%
Textile & Apparels Sector	6.06%
Timber, Wood & Furniture Sector	4.04%
Other	3.03%

4.5 Descriptive Statistical Analysis

4.5.1 Corruption Practice/Service Satisfaction

The survey sought to determine the level of satisfaction of the services offered by KRA Staff. The findings of the survey as indicated in Figure 4.5 show that 27.3 % were very satisfied, 50.5 % were satisfied with the services while 16.2% of the respondents stated that they were moderately satisfied. Only 6.1% of the respondents indicated that they were not satisfied with the services offered.

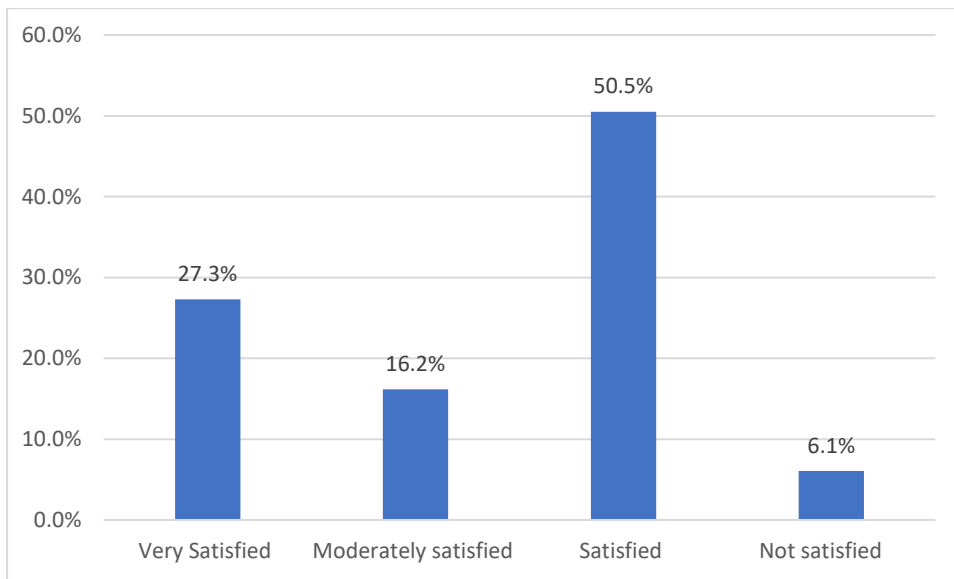


Figure 4:6 Corrupt Practice /Service satisfaction

Based on the response rates the Corruption Practices Index was determined to be 1.01. This value of this index ranges from 0 to 3. Then this finding points to less proliferation of corruption as based on the KACC Guide for Corruption Base Line Survey (KACC, 2008) for conducting corruption perception survey since the value its closer to Zero than to Three.

4.5.2 Corruption Pressure Index

The respondents were asked to indicate the extent to which they were pressured to engage in corruption practices either by the management or KRA Employees. Majority of the respondents (49.49 %) stated that they never had any pressure exerted on them to engage in corruption activities. On the other hand, 20.20% indicated that they had experienced some pressure while

24.24% indicated that they had experienced a fair amount of pressure. Only a few (6.06%) stated that they had experienced a lot of pressure from the management and/or other employees of KRA to engage in corruption.

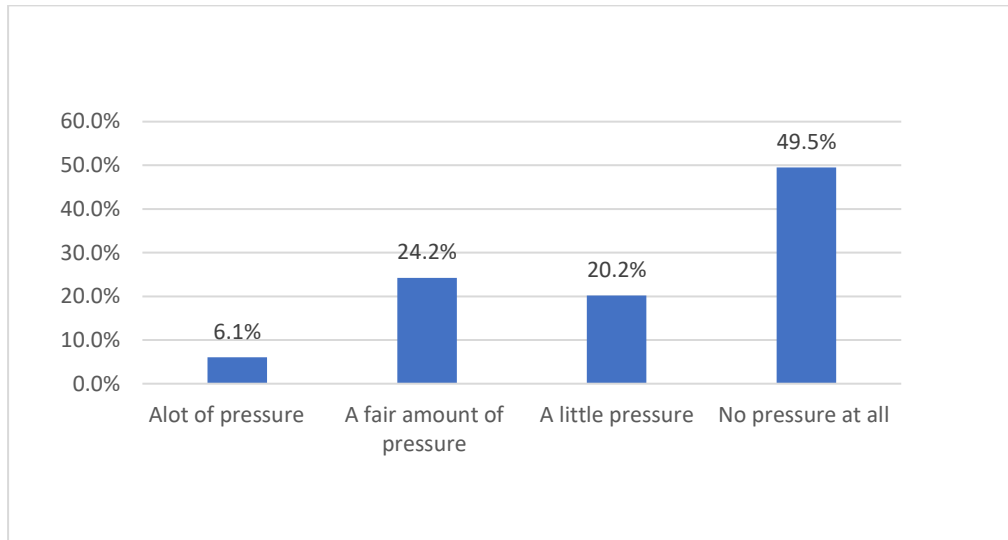


Figure 4:7 Pressure to engage in Corruption Practices

Averaging the total number of responses and dividing them with the total number of the respondents, the value of Corruption Pressure Index was determined to be 0.87. Since this value is close to zero, the study found that the level of corruption among the management and/or KRA employees was perceived to be less as indicated by the listed members of KAM surveyed.

4.5.3 Widespread of corruption among the employees of KRA

The respondents were asked to gauge the level of corruption among the employees of KRA. The results show that a minority (7%), indicated that almost all KRA officials are engaged in corruption. Nineteen (19 %) stated that most officials were engaged in corruption while 49% were of the idea that only a few KRA officials were involved in corruption. A sizeable 17% indicated that there is hardly any KRA official involved in corruption.

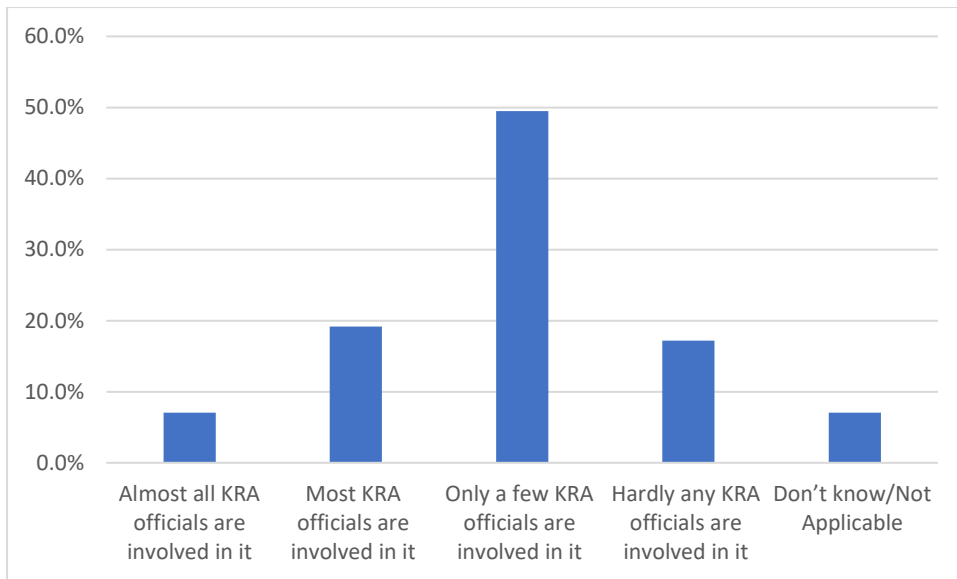


Figure 4:8 Spread of Corruption among the employees of KRA

The index for the spread of corruption among employees of KRA was found to be 1.09 showing that the respondents perceived the levels of corruption amongs the KRA employees to be low.

4.5.1 Future Expectations on the Level of Corruption at KRA

The study sought to determine the respondents' expectations of the future levels of corruption in KRA. The results show that majority of the respondents (35%) expects no corruption at KRA in the future. Another 18% indicated that they expect low levels of corruption while 20% indicated that they anticipate moderate levels of corruption in future. Twenty (22 %) of the respondents stated that they expect very high levels of corruption in KRA in the future.

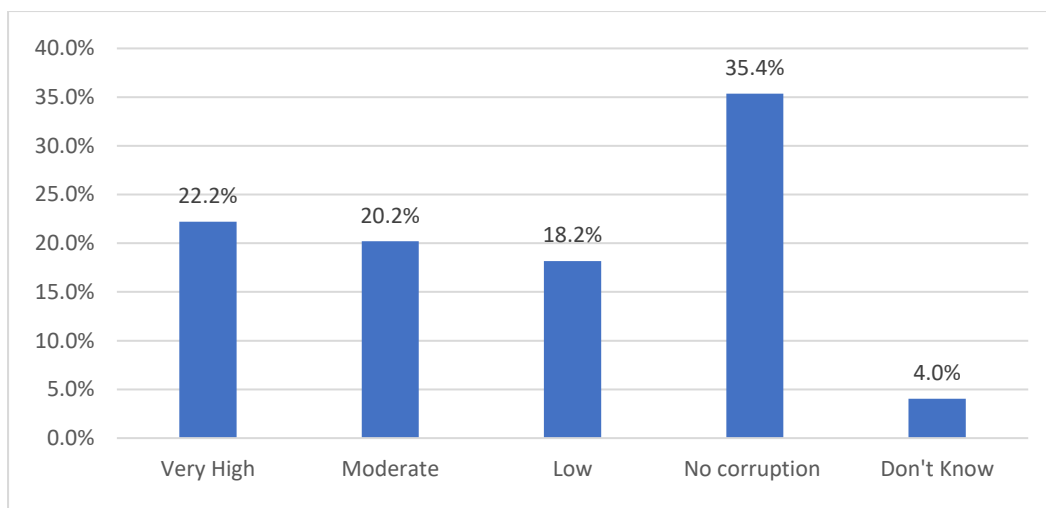


Figure 4:9 Future Expectations on the Level of Corruption at KRA

The future of corruption index was established to be 1.25. This value (1.25) is closer to 0 than to 3 and therefore it implies that the respondents expected moderate levels of corruption at KRA in the future.

4.5.5 Overall Corruption Perception Index

The overall Corruption Perception Index was obtained using the indices calculated namely corruption practices index, corruption pressure index, corruption spread index and future corruption index. According to KACC Guide for Corruption Base Line Survey (KACC, 2008), the overall Corruption Perception Index is the average of the four indices listed above. The closer the value to zero the less corruption there is while a value closer to 3 indicates that corruption is persistent (KACC, 2008). The percentage corruption index was calculated by dividing the index value by three and multiplying the resulting figure by 100%.

Table 4.6 Overall Corruption Perception Index

Corruption Measure	Index	% Corruption Index (Max 100%)
Corruption Practices Index	1.01	33.7%
Corruption Pressure Index	0.87	29.0%
Corruption Spread Index	1.09	36.3%
Future Corruption Index	1.25	41.7%
Corruption Perception Index	1.06	35.2 %

The overall corruption perception index as perceived by KAM members in Makadara Sub County was 1.06 (35.2%). This indicates that the members perceived that there were moderate levels of corruption in KRA as per the Corruption scale adopted from KRA. See figure 4:10.

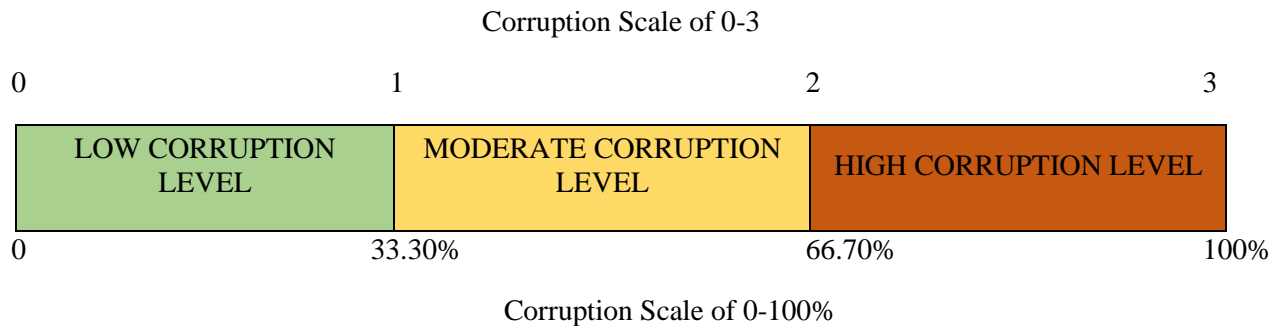


Figure 4:10 Corruption Scale

4.5.6 Tax Compliance

The study sought to establish the company levels of tax compliance by examining the respondents’ perspectives on the Company’s accurate reporting of business income without undue pressure to engage in corruption, Company willingness to file returns on time, timely Payment of tax through the itax portal and accurate tax declarations which are true reflection of the state of affairs of the company. The results are shown in the table below.

Table 4.7 Tax Compliance, Frequency (%)

	SA	A	DK	D	SD	mean	Standard deviation
Company accurately reports my business income	62.6%	30.3%	3.0%	3.0%	1.0%	1.5	0.29
Company willingly File returns on time as required by law	65.7%	29.3%	3.0%	1.0%	1.0%	1.4	0.308
Company makes Tax Payment on time through the itax portal	64.7%	30.3%	3.0%	1.0%	1.0%	1.4	0.31
Company makes accurate Tax declaration	65.7%	26.3%	7.0%	0.0%	1.0%	2.7	0.81

SA = Strongly Agree, A= Agree, DK = Do Not Know, D = Disagree, SD= Strongly Disagree

From the results in Table 4.7, 62 (62.6 %) and 30 (30.3%) of the respondents strongly agreed and agreed respectively that their company accurately reported their business income. On the other hand, 3 % and 1 %, disagreed and strongly disagreed respectively. 3% did not know. In addition, 65.7% and 29.3% of the respondents indicated that their companies willingly filed return as required by law while 1% each disagree and strongly disagree. Similarly, 3% reported that they do not know whether their companies willingly filed their returns.

The results also show that 64.7% and 30% strongly agreed and agreed that their companies make timely tax payment on the itax portal whereas, 3 % did not know while 1% stated that they agreed and strongly agreed with this. Regarding accurate tax declarations by the company, 65.7% and 26.3% of the respondent indicated that their companies accurately made tax declarations. Only 1% strongly disagreed while 7% did not know

From the result, majority of respondents agree or strongly agree that KAM members accurately report income, makes timely file returns, tax payment and accurately declares tax.

4.5.7 Tax Enforcement Measures

The study was also interested establishing the views of the respondents on the existing tax enforcement measures to determine how this affected tax compliance. The results are presented in Table 4.8 herein.

Table 4.8 Tax Enforcement Measures

	SA	A	DK	D	SD	mean	Standard deviation
If detected not reporting all my income then serious tax compliance audits will be undertaken on my business which are costly and time consuming.	61.6%	32.3%	3.0%	1.0%	2.0%	1.49	0.30
If detected not reporting my exact income, I believe serious enforcement actions will be taken by KRA including paying penalties, interests, and fines.	60.6%	34.3%	3.0%	2.0%	0	1.46	0.33
Distrain actions undertaken by KRA are fairly targeted	54.5%	30.3%	7.1%	6.1%	2.0%	1.71	0.22
If corruption cases are detected, serious enforcement including court suits will be undertaken	62.6%	29.3%	2.0%	5.1%	1.0%	1.52	0.28

SA = Strongly Agree, A= Agree, DK = Do Not Know, D = Disagree, SD= Strongly Disagree

From the results, 61.6% and 32.3% agreed that compliance audits would be undertaken on their business for not reporting their incomes while 1%, 2 % and 3% disagreed, strongly disagreed and were not certain respectively with this statement. In addition, 60.6% and 34.3% agreed that they would attract fines, penalties and interest from KRA for not reporting the exact incomes. Two (2%) disagreed with this statement while 3% did not know. The finding also showed that 54.5 % and 30.3% strongly agreed and agreed that distraint actions by KRA are fairly targeted. Meanwhile, 7.1% stated that they did not know while 6.1% and 2% disagreed and strongly disagreed respectively. In addition, 62.6% and 29.3% on the respondent strongly agreed and agreed respectively that serious enforcement measures such as courts suits would be taken if corruption was detected. Further, 5.1 % disagreed while 1% strongly disagreed and 2% did not know.

The findings indicate that majority of KAM members agreed that serious enforcements measures would be taken in case incidents of corruption or non-compliance are detected. The existence of the deterrence measures improved compliance possibly due to the fear of the punishments (Mehlkop & Graeff, 2010; De Graaf, 2007).

4.5.8 Current Level of corruption in KRA

The study sought to determine the respondents current perceived level of corruption in KRA. The results show that only 10% indicated that there exists no corruption. Thirty-four percent (34%) indicated that there are low levels of corruption in KRA while 25% indicated that the levels of corruption in KRA were moderate. Additionally, 26 % of the respondents stated that there are very high levels of corruption in KRA.

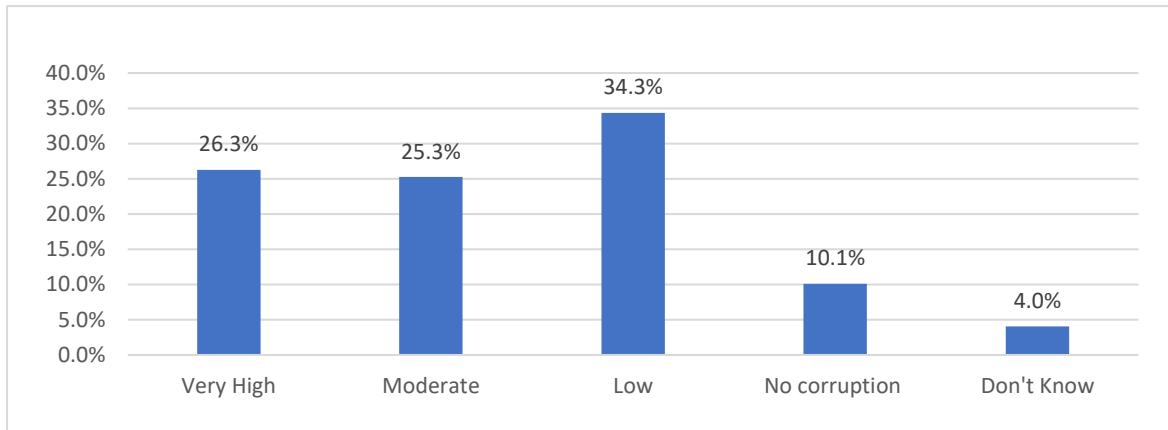


Figure 4:11 Current Level of Corruption in KRA

The results indicate that most respondents believed there was still a significant amount of corruption in KRA.

4.5.9 Perceived levels of corruption per sector

The table below shows how respondents from different sectors perceived corruption levels in KRA. From the results, 11.11% of respondents from the Building, Mining & Construction Sector, 9.09% in Motor Vehicle Assemblers & Accessories Sector, and 12.5% of the respondents in both the Paper & Board Sector and Plastics & Rubber Sector perceived corruptions levels at KRA to be very high. Respondents from the Energy and Petroleum, and Glass sector perceived the corruption levels at KRA to be non-existent.

Table 4:9 Perceived levels of corruption per sector

Sector	Level of corruption in KRA today				
	Don't Know	No Corruption	Low	Moderate	Very high
Building, Mining & Construction Sector	0.00%	44.44%	22.22%	22.22%	11.11%
Chemical & Allied Sector	16.67%	41.67%	16.67%	25.00%	0.00%
Energy and Petroleum sector	0.00%	100.00%	0.00%	0.00%	0.00%
Energy, Electrical and Electronics Sector	20.00%	20.00%	20.00%	40.00%	0.00%
Food & Beverages Sector	25.00%	50.00%	8.33%	16.67%	0.00%
Glass sector	0.00%	100.00%	0.00%	0.00%	0.00%
Manufacturing	0.00%	66.67%	33.33%	0.00%	0.00%
Metal and Allied Sector	12.50%	25.00%	50.00%	12.50%	0.00%
Motor Vehicle Assemblers & Accessories Sector	9.09%	27.27%	36.36%	18.18%	9.09%
Paper & Board Sector	12.50%	25.00%	12.50%	37.50%	12.50%
Plastics & Rubber Sector	0.00%	25.00%	62.50%	0.00%	12.50%
Printing and Publication sector	0.00%	50.00%	0.00%	50.00%	0.00%
Service and Consultancy Sector	0.00%	0.00%	28.57%	71.43%	0.00%
Textile & Apparels Sector	16.67%	50.00%	0.00%	33.33%	0.00%
Timber, Wood & Furniture Sector	0.00%	0.00%	25.00%	75.00%	0.00%
Grand Total	10.20%	34.69%	24.49%	26.53%	4.08%

4.5.10 Basis of Assessing Corruption levels in KRA

The respondents were asked to state what they based their assessment of corruption amongst KRA employees on. The responses showed that 49.5% stated that they based their information on the media, 19.2% stated that they based the assessment on personal experiences while 18.2% based their assessment on information from the institution. Those that based their assessment on information from the anti-corruption commission was 8.1 % while 2 % of the respondents

based their assessment on discussion with relatives and information from politicians. Only 1% used information from places of worship to assess corruption.

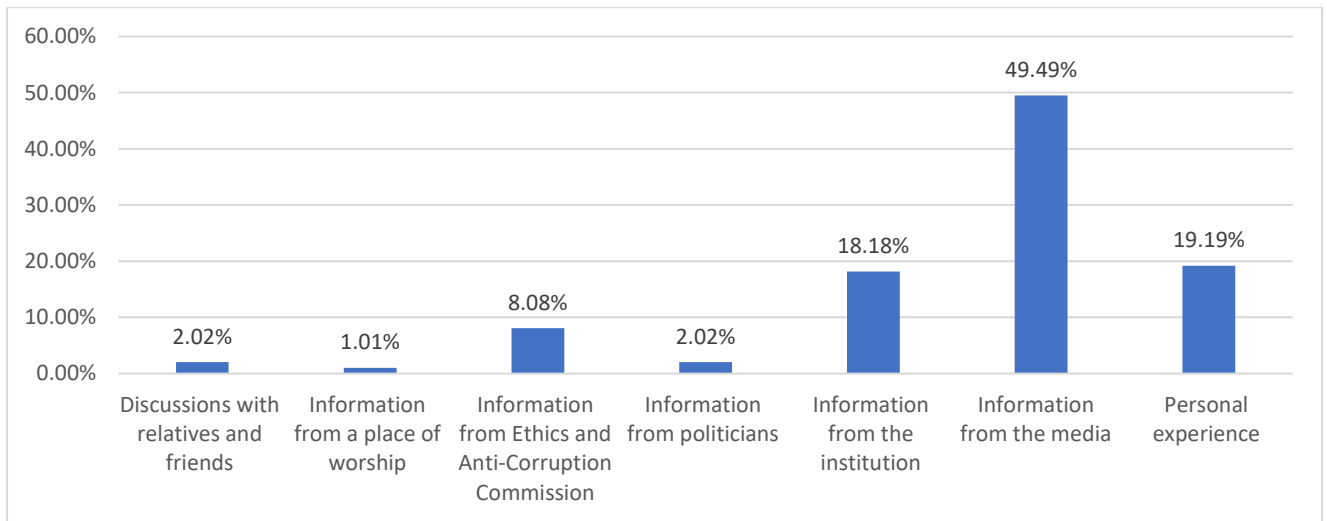


Figure 0:12 Basis of assessing corruption levels in KRA

The results indicate that the media was the most relied upon to report on cases of corruption, followed by personal experience then by information from KRA.

4.5.11 Forms of Corruption among KRA Officials

The study sought to identify the forms of corruption the respondents perceived to be common among the employees of KRA. Respondents were asked to rate the extent to which they agreed/or disagreed with following; - KRA officials demand bribes from taxpayers, KRA official abuse office for personal gain, extortion is rampant among KRA official and there is a lot of embezzlement of taxes within KRA. Table 4.10 below summarizes the results.

Table 4.10 Perceived Forms of Corruption among KRA Officials, Frequency (%)

	SA	A	DK	D	SD	Mean	Standard deviation
Bribery demand by KRA Officials	16.2%	33.3%	7.1%	32.3%	11.1%	2.89	0.45
Abuse of office by KRA Officials for personal gain	21.3%	28.2%	6.1%	30.3%	14.1%	2.87	0.42
Extortion among Tax officials	16.2%	31.3%	6.1%	29.3%	17.2%	3	0.44
Embezzlement of taxes within KRA	32.3%	24.2%	5.1%	24.2%	14.1%	2.64	0.32

SA = Strongly Agree, A= Agree, DK = Do Not Know, D = Disagree, SD= Strongly Disagree

Concerning Bribery demands by the KRA officials, 16.2% and 33.3% strongly agreed and agreed that KRA officials demanded bribes from taxpayers, 32.2% disagreed while 11.1% strongly disagreed. Additionally, 7.1 % did not know. Further, 21.3% strongly agreed and 28.2% agreed that KRA official abuse their office for personal gain. However, 30.3% and 14.1% disagreed and strongly disagreed respectively while 6.1% reported that they did not know. Regarding extortion, the respondents who strongly agreed and agreed were 16.2% and 31.3% respectively whereas 29.3 % disagreed that extortion was rampant while 17.2% strongly disagreed. In addition, 6.1% reported that they did not know. The results show that 32.3% and 24.2% strongly agreed and agreed that there is embezzlement of taxes within KRA, 24.2% disagreed while 14.1% strongly disagreed with this statement. A paltry 5.1% reported that they did not know whether there was embezzlement of taxes.

The result show that some corrupt KRA official are, to some extent, enablers of non-compliance by engaging in corruption. This shows that there exists some level of systemic corruption as the corrupt KRA officials may, by virtue of their position, support or engages in instances of corruption for self-gain. These results are supported by (Child ,2008) who found that corruption may be systemic where individuals work together to support tax evasion schemes.

4.6 Inferential Statistics

4.6.1 Correlation Analysis

Correlation analysis is done to determine the link between two variables. A positive value indicates that the two variables are correlated while a negative correlation coefficient indicate that two variables are not correlated. This study analyzed the correlation between the dependent and the independent variable with the results shown in Table 4.11 below.

Table 4.9 Correlation Analysis

		Tax compliance	Corruption pressure	Corruption practice	Magnitude of corruption	Future Expectation
Tax compliance	Correlation Sig. (2-tailed)	1				
Corruption pressure	Correlation Sig. (2-tailed)	-.096	1			
Corruption practice	Correlation Sig. (2-tailed)	-.101	.838**	1		
Magnitude of Corruption	Correlation Sig. (2-tailed)	-.534**	-.045	.007	1	
Future Expectation	Correlation Sig. (2-tailed)	-.214*	-.471**	-.141	.217*	1
		.033	<.001	.164	.031	

From the results in Table 4.11, tax compliance was seen to have a negative correlation with the Corruption Practices, Corruption Pressure, Magnitude of Corruption and Future Expectation (-.096, -.101, -.534 and -.214 respectively). Corruption spread and Future Expectation were found to be significant at 0.05 significant level (p-value = p <.001 and .033 respectively) while Corruption Practices and Corruption Pressure were found to be non-significant at 0.05 significant level (p-value = .347 and .321 respectively). These results show that the perceived corruption level (Corruption Practices, Magnitude of Corruption, Corruption Pressure and

Future Expectation) had negative effects on the level of tax compliance among the KAM members in Makadara Sub-County.

4.6.2 Regression Analysis

A regression model is used to assess cause-effect relationship, the degree of cause-effect relationship as well as the direction of change. This is seen in the coefficients of the various determinants of tax compliance in the equation. A positive coefficient of estimation implies an increase by the magnitude of the coefficient while a negative value indicates a decrease by the magnitude of the estimated coefficient.

Model Summary

Table 4.12 shows the model summary showing the goodness of fit measure of our regression model.

Table 4.10 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.587 ^a	.354	.317	.38087

From Table 4.12 above, the R value is positive (0.587). This shows a moderate relation between the dependent variable (Tax compliance) and the independent variables (perception of corruption indicators). The R square shows how tax compliance varied because of the independent variables in the model i.e., Corruption Practices, Magnitude of Corruption, Corruption Pressure and Future Expectation. From the result in the Table 4.12 above, only 35.4% of variability of Tax compliance amongst the KAM members in this study can be accounted for by the combined effect of Corruption Practices, Magnitude of Corruption, Corruption Pressure and Future Expectation.

Estimation of Regression Coefficients

The coefficient of the various determinants from the regression output are presented in the Table below.

Table 4.13 Estimation of Regression Coefficients

Model	Unstandardized		Standardized		
	B	Std. Error	Beta	t	Sig.
(Constant)	3.533	.209		16.890	<.001
Future expectation	-.221	.086	-.291	-2.556	.012
Corruption practice	.195	.139	.254	1.407	.163
Corruption pressure	-.214	.093	-.468	-2.307	.023
Magnitude of Corruption	-.283	.049	-.494	-5.753	<.001

The table shows the summary of the predicted model relative to the independent variables. From these results, holding all the independent variables constant, the tax compliance was estimated at 3.533. The result show that the regression coefficient for perceived corruption pressure, Magnitude of corruption and future expectation of Corruption is negative (-.214, -.221 and -.283 respectively). This indicates that increase in the perception of corruption pressure, Magnitude of corruption and future expectation of Corruption will reduce tax compliance by 0.221, 0.214 and 0.283 respectively. The regression coefficient for perceived level of corruption practices is 0.195. This implies that an increase in corruption practices increases compliance by 0.195.

However, the result show that the p-value for corruption practices, 0.163, is greater than 0.05 significant level. This shows that this variable was not statistically significant i.e., had no observable effect on the tax compliance among KAM Members in Makadara Sub-County. On

the other hand, corruption pressure, Magnitude of corruption and future expectation of Corruption had p values less than 0.05 significant level (p-value = .023 , P <.001, and .012 respectively)

4.7 Research Findings and Discussions

This study endeavored to establish the influence of perception of corruption on tax compliance among the members of KAM in Makadara Sub-County and thereafter based on its findings come up with various recommendations on how to address the corruption related challenges that may affect compliance among the members. One of the most crucial objectives of this was first to assess the Corruption Perception Index (CPI) since the index is important in gauging the perceived levels on corruption in the Authority based on the manufacturers opinions. The other aspect of the study was to consider the cause-effect relationship between the CPI and the tax compliance. This study found out that the CPI was at 1.06 (35.2%) based on the analyses of the responses gotten from the KAM members in Makadara Sub County.

The study found that the corruption practices index was (1.01 or 33.7%) indicating a less proliferation of corruption. The result show that some corrupt KRA officials may be enablers of corruption by demanding bribery (49.5%) and extortion (47.5%). This shows that there exists some level of systemic corruption as the corrupt KRA officials may by virtue of their position, support or engage in instances of corruption for self-gain. These results are supported by Child (2008) who found that corruption may be systemic where individuals work together to support tax evasion schemes. From the finding of this study, Corruption practices was found to be weakly and negatively correlated with tax compliance (correlation coefficient of -0.096). these results show that the level of Corruption practices had negative effects on tax compliance. This variable was however, statistically insignificant at 0.05 significant level (p-value of .347).

Corruption pressure index was found to be (0.87 or 29.0%). The result show that some corrupt KRA official are, to some extent, enablers of non-compliance by engaging in corruption. Approximately half of the respondents (49.5 %, 47.5 and 56.5%) indicated that Bribery demand, extortion and embelzzlement of taxes respectively was rampant among KRA officials. This shows that there exists some level of systemic corruption as the corrupt KRA officials may, by virtue of their position, support or engages in instances of corruption for self-gain. These results are supported by (Child ,2008) who found that corruption may be systemic where

individuals work together to support tax evasion schemes. Corruption pressure was found to be negatively correlated with tax compliance (correlation coefficient of -0.101) but the correlation was found to be statistically insignificant (p-value of .321). This implies that corruption practices do not contribute to tax compliance among KAM members in Makadara Sub-County while the corruption pressure index is a statistically significant contributor of tax compliance.

The study found that the Magnitude of corruption index was (1.09 or 36.3%) indicating a moderate level of corruption. The study found that most members agreed that various forms of corruption existed among KRA officials. Embezzlement of funds within KRA was perceived to be the most common form of corruption (56.5%). Bribery demand as well as Abuse of office by KRA officials was perceived to be moderate (49.5% each) while 47.5% of the respondent reported extortion among KRA officials. However, magnitude of corruption had a strongly negative and significant correlation with tax compliance (correlation coefficient of -0.534 and p-value $P < .001$). the regression also showed that Magnitude of corruption has a negative significant relationship with tax compliance (regression coefficient of -0.221 and p-value $P < .001$). This implies that magnitude of corruption is a significant contributor of tax compliance among KAM members in Makadara Sub-County.

The finding from this study showed that the future expectation of corruption index was (1.25 or 41.7%). The results show that majority of the respondents (35%) expects no corruption at KRA in the future. Another 18% indicated that they expect low levels of corruption while 20% indicated that they anticipate moderate levels of corruption in future. Twenty (22 %) of the respondents stated that they expect very high levels of corruption in KRA in the future. The results shows that the future expectation of corruption had a negative and significant correlation with tax compliance (correlation coefficient of -0.534 and p-value $P < .001$). Similarly, the future expectation of corruption had a negative non- significant relationship with tax compliance (regression coefficient of -0.283 and p-value 0.012).

The findings of this study showed that the perceived corruption pressure, Magnitude of corruption and future expectation of Corruption had negative effects on the level of tax compliance among the KAM members in Makadara Sub-County. It was established that an increase in the perception of corruption pressure, Magnitude of corruption and future

expectation of Corruption will reduce tax compliance by 0.221, 0.214 and 0.283 respectively. The results also show that these were statistically significant at 0.05 significant level (p-value = .023, $P < .001$, and .012 respectively). Perceived corruption practices had a positive regression coefficient of 0.195 and was found to be non-significant at 0.05 significant level p value = 0.163. However, there was an indication that a unit increase in the level of corruption practices would increase compliance by 0.195. This is possibly because the taxpayers could weigh viewed compliance as a legal and moral obligation. Also, on cost-benefit analysis in terms of not paying the taxes and decide to pay the taxes other than engage in corruption practices.

It can be deduced that the manufacturers were willing to be compliant because of the possible punitive measures for non-compliance. From the result, majority of respondents agree or strongly agree that they accurately reported income, timely filed returns, made payment and accurately declared their taxes. The indication of the high compliance could be partly due to the fact the members anticipated that serious enforcements measures would be taken against them in case incidents of corruption or non-compliance were detected by the tax officials. According to the literature reviewed, the existence of deterrence measures improves compliance possibly due to the fear of the punishments.

This study has established how the perception of corruption influenced tax compliance among the manufacturers in Makadara Sub-county though influence was found to be minimal, the Authority should endeavour to enhance the measure intended to address corruption in the tax administration. This is backed by the fact that the reviewed literature showed that perception of corruption may cause sub optimal collection of taxes especially when taxpayers are aware of the existence of systemic corruption among the tax officials. Other measures could include the enhancement of awareness on tax matters and improvement of services delivery systems among other ways. The findings have also found out that quite a higher percentage of the respondents (49.5%) stated that they based their information on corruption from the media. This is an implication that the Authority should work closely with the media as a way of addressing issues related to the perception of corruption and tax compliance matters.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter contains the summary of the findings made from the study, conclusions as well as recommendations made. Suggestions for further studies are also highlighted.

5.2 Summary of the Findings

From the findings, the overall Corruption Perception Index was established to be 1.06. This translates to a prevalence rate of 35.2%. This was obtained by averaging the four corruption measures namely: Corruption practice index (1.01 or 33.7%), corruption pressure index (0.87 or 29.0%), Corruption magnitude index (1.09 or 36.3%) and the future corruption index (1.25 or 41.7%). These indices point to moderate levels of corruption in KRA as per the Corruption scale adopted from KRA (KRA, 2019). These results are echoed by the large number of respondents 51.6% that indicated that there are moderate levels of corruption in KRA.

The study found that the corruption practices index was (1.01 or 33.7%) while the corruption pressure index was (0.87 or 29.0%) indicating a less proliferation of corruption. The results show that some corrupt KRA officials may be enablers of corruption by demanding bribery (49.5%) and extortion (47.5%). This shows that there exists some level of systemic corruption as the corrupt KRA officials may by virtue of their position, support or engage in instances of corruption for self-gain. These results are supported by Child (2008) who found that corruption may be systemic where individuals work together to support tax evasion schemes.

From the findings of this study, Corruption practices were found to have a positive non-significant relationship with tax compliance (regression coefficient of 0.195, and p-value of .163). On the other hand, corruption pressure was found to have a negative statistically significant contributor of tax compliance (regression coefficient of -0.214, and p-value of .023). This implies that corruption practices do not contribute to tax compliance among KAM members in Makadara Sub-County while the corruption pressure index is a statistically significant contributor of tax compliance.

The study found that the Magnitude of corruption index was (1.09 or 36.3%) indicating a moderate level of corruption. The study found that most members agreed that various forms of corruption existed among KRA officials. Embezzlement of funds within KRA was perceived to be the most common form of corruption (56.5%). Bribery demand as well as Abuse of office by KRA officials was perceived to be moderate (49.5% each) while 47.5% of the respondent reported extortion among KRA officials. However, magnitude of corruption had a negative significant relationship with tax compliance (regression coefficient of -0.221 and p-value $P < .001$). This implies that magnitude of corruption is a significant contributor of tax compliance among KAM members in Makadara Sub-County.

The finding from this study showed that the future expectation of corruption index was (1.25 or 41.7%). The results show that majority of the respondents (35%) expects no corruption at KRA in the future. Another 18% indicated that they expect low levels of corruption while 20% indicated that they anticipate moderate levels of corruption in future. Twenty (22 %) of the respondents stated that they expect very high levels of corruption in KRA in the future. Similarly, the future expectation of corruption had a negative non- significant relationship with tax compliance (regression coefficient of -0.283 and p-value 0.012).

From the findings, the study established that majority of the respondents (49.5%) relied mostly on the information from the media as a basis for assessing corruption. Nineteen percent (19.2%) stated that they based the assessment on personal experiences while 18.2% based their assessment on information from the institution. Respondents least used information from places of worship as a basis of assessing corruption. Similar study by the Kenya Revenue Authority showed that the media is the most effective medium for reporting and informing on corruption practices (KRA, 2019).

The findings indicate that majority of KAM members were compliant possibly due to fear of possible punishments. Majority of the respondents agreed that various actions would be taken against them in case of non-compliance. The existence of the deterrence measures improved compliance possibly due to the fear of the punishments (Mehlkop & Graeff, 2010; De Graaf, 2007). In addition, the high perception of enforcement measures by KRA shows the possible punishment that can be applied upon being discovered outweighed the benefits of non-compliance thus they were better off complying (Allingham & Sandmo, 1972).

5.3 Conclusion

The study concluded that corruption pressure, Magnitude of corruption and future expectation of Corruption were significant contributor to tax compliance on the respondents. An increase in the perception of corruption pressure, Magnitude of corruption and future expectation of Corruption will reduce tax compliance while increase in corruption practice index will increase compliance.

From the study, we can conclude that 35.4% of variability of Tax compliance among the registered KAM Members in Makadara Sub-County were determined by the combined effect of corruption pressure, corruption practice index, Magnitude of corruption and future expectation of Corruption. The remaining 64.6% of variability of tax compliance is explained by other factors not included in this model. There exists an array of factors that influencing tax compliance including behavior, attitudes and subjective norms as noted by (Torgler & Schaffner, 2007) and (Ajzen & Fishbein, 1980). In addition, Alm & Torgler (2005) have highlighted the need to understand such factors by relying on a social psychological approach among other methods of studying the aspect of tax morale and compliance.

From this study, the following conclusions were drawn:

- i. The Corruption practices was found to be weakly and negatively correlated with tax compliance (correlation coefficient of -0.096). These results show that the level of Corruption practices had negative effects on tax compliance. This variable was however, statistically insignificant at 0.05 significant level (p-value of .347). Corruption practices was found to have a positive non-significant relationship with tax compliance (regression coefficient of 0.195, and p-value of .163).
- ii. Corruption pressure was found to be negatively correlated with tax compliance (correlation coefficient of -0.101) but the correlation was found to be statistically insignificant (p-value of .321). the findings indicate that corruption pressure had a negative statistically significant contributor of tax compliance (regression coefficient of -0.214, and p-value of .023). This implies that corruption pressure index is a statistically significant contributor of tax compliance among KAM members in Makadara Sub-County. These results show the existence of systemic

corruption where individuals work together to support tax evasion schemes as opined by supported by Child (2008).

- iii. Magnitude of corruption had a strongly negative and significant correlation with tax compliance (correlation coefficient of -0.534 and p-value $P < .001$). the regression also showed that Magnitude of corruption has a negative significant relationship with tax compliance (regression coefficient of -0.221 and p-value $P < .001$). This shows that magnitude of corruption is a significant contributor of tax compliance among KAM members in Makadara Sub-County.
- iv. The results shows that the future expectation of corruption had a negative and significant correlation with tax compliance (correlation coefficient of -0.534 and p-value $P < .001$). Similarly, the future expectation of corruption had a negative non-significant relationship with tax compliance (regression coefficient of -0.283 and p-value 0.012).

Previous studies have found corruption to have a negative and statistically significant effect on tax compliance (Bertinelli et al., 2006). Similarly, tax compliance among the corporate entities were seen to have a stronger correlation with corruption as compared to individuals (Baum et al., 2017)

The study concluded that tax enforcement measures employed by KRA could be a contributor of tax compliance as the KAM members are aware of the measures employed in the event of detection of corruption practices or failure to accurately report incomes is detected (>90%). The members opined that these measures are targeted fairly (>94%). It was found that the punitive measures employed acts as a deterrent to non-compliance.

5.4 Recommendations

This study found that even though the Corruption Perception Index was found to be moderately low at 1.06 (35.2%), indicating that there exists some form of corruption among KRA officials, perception of corruption had minimal influence on tax compliance among the members of KAM situated in Makadara Sub-County.

The study found corruption practices to be moderate. Therefore, this study recommends since the reviewed literature showed that perception of corruption may result into sub optimal collection of taxes especially when taxpayers are aware of the existence of systemic corruption

among officials, the Authority should continue implementing anti-corruption measures envisioned in the KRA 8th Corporate Plan for the FY 2021/22 to 2023/24.

To reduce the corruption pressure index and since the respondents are aware that there exist stern enforcement measures against failure to report on income and engaging in corruption, The authority should actively maintain and tighten these measures to increase compliance levels while at the same time investing in other alternative approaches intended to increase compliance. These may include continuous creation on awareness on tax matters and improvement of services delivery systems among other ways. This is because the literature reviewed as shown that over-reliance on the use of deterrence measures to increase compliance may over time result to negative behavior and non-compliance.

As it regards the KAM and given the fact that some of its members indicated having been pressured to engage in corruption practices, the Association should work closely with Authority and establish mechanisms for addressing corruption related complaints to create a business operational environment based on the best ethical practices that are necessary for both economic growth and development.

To curb the spread of corruption, the study also recommends that KRA should also continue enhancing corruption reporting mechanisms to allow taxpayers to report instances of corruption and non-compliance that they may encounter when engaging with tax officials for appropriate remedial action. Similarly, since quite a higher percentage of the respondents (49.5%) stated that they based their information on corruption from the media, the Authority should enhance its relationship with the media and at the same time strive to communicate its anti-corruption campaigns and tax educations matters on both print and electronic media as way of reaching a wider population.

In addition, KRA and the government should also ensure that the Tax officials are compliant and do not engage in corruption practices to bolster the image of the authority and increase public confidence in the institution. This will reduce the future expectation of corruption and increase the level of tax compliance.

5.5 Suggestion for Further Studies

This study sought to determine the influence of perception of corruption on tax compliance among the registered KAM members in Makadara Sub-County. To further encourage growth in knowledge, the study makes the following suggestions: -

- i. There is a need to scale this research to examine the effect of perception of corruption on tax compliance in other sectors or institutions country wide. This is because this study only targeted the listed registered members of KAM located in Makadara Sub County and therefore other areas were not covered.
- ii. There is need to examine the effect of perception of corruption beyond the scope of tax compliance. There's a need to understands how perception of corruption affects the provision and delivery of services in government institutions.
- iii. That since compliance is affected by numerous factors that were not addressed in this study, it is prudent that other studies be conducted to examine such factors as a way of increasing the wealth of knowledge on the influencers of tax compliance.

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APPENDIX I: DATA COLLECTION PERMIT



REF: KESRA/NBI/036

25th March, 2021

TO WHOM IT MAY CONCERN

**RE: REQUEST FOR RESEARCH PERMIT:
ISIAH GITONGA NYAGA- REG. NO. HBD336-C016-4189/2016**

This is to confirm that the above named is a student at Kenya School of Revenue Administration (KESRA) Nairobi Campus pursuing Post Graduate Diploma in Tax Administration.

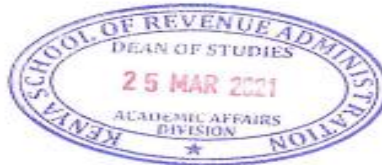
The named student is undertaking Research on TOPIC: **"INFLUENCE OF CORRUPTION PERCEPTION ON TAX COMPLIANCE AMONG MEMBERS OF KENYA ASSOCIATION OF MANUFACTURERS IN NAIROBI COUNTY."**

The purpose of this letter is to request your good office to assist the above student with the information to enable him work on his project.

Your support to KESRA in this regard will be highly appreciated.

Thank you.

**Dr. Marion Nekesa PHD,
Head Academic Research
KESRA**



P. O. Box 48240 – 00100, Nairobi

Email: kesratraining@kra.go.ke

Tel: +254715877535/9

Tulipa Ushuru, Tujitogemee!



APPENDIX II: QUESTIONNAIRE

Introduction

I am called Isaiah G. Nyaga, currently I am a student at Jomo Kenyatta University of Agriculture and Technology undertaking a Post Graduate Diploma in Tax Administration. I am conducting a survey to evaluate the influence of corruption perception on tax compliance among the members of KAM. Therefore, I humbly request your assistance in filling-in the Questionnaire below. Please note that your responses will be treated as confidential.

Instructions

Please read the questions and answer them either by filling in the blank spaces or ticking the check boxes [/] or tables.

Part A: Socio-demographic

1. What is your gender: Male[] Female [].

2. What is your Age.

Below 25 Years [] Between 26-50 Years [] Between 51-75 []

3. What is your level of education.

Primary education [] Secondary education [] Higher education []

4. What is your religion.

Christian [] Muslim [] Hindu [] Others []

5. Which sector/type of manufacturing is your business involved in? _____

7. Where is your business located? _____

8. What is the approximate distance between your business premise and the nearest KRA Offices. Less than 5 KM [] 6-10 KM [] Above 15KM []

9. For how long has your business been involved in this type of manufacturing?

0 – 2 years [] 3 – 5 years [] 6 – 8 years [] 9 years & above []

Section B: Tax Compliance

10. Please rate the extent to which you agree with the following statement with regards to tax compliance. Where 1= Strongly Agree, 2= Agree, 3= Do not know, 4= Disagree, 5= Strongly Disagree.

Tick Appropriately.	1	2	3	4	5
The company honestly and accurately reported my business income without undue pressure to engage in corruption activities					
The company file returns on time as willingly as required by law					
The company make Payments of tax on time through online iTax platform					
The company makes accurate tax declarations which are true reflection of the affairs of the company.					

Section C: Perceived forms of Corruption

11. Please rate the extent to which you agree with the following statement with regards to the perceived forms of corruptions. Where 1= Strongly Agree, 2= Agree, 3= Do not know, 4= Disagre, 5= Strongly Disagree.

Tick Appropriately.	1	2	3	4	5
Bribery demand is rampant as KRA/tax official demands bribery from taxpayers					
KRA official abuse of office for their personal gain.					
Extortion is rampant among tax officials in KRA					
There is a lot of embezzlement of taxes within KRA					
There is much pressure exerted on you by public/KRA officers to engage in corruption					

12. How satisfied were you with the services offered to you by the staff of KRA

1. Very satisfied 4. Not satisfied
2. Satisfied 5. Don't Know
3. Modareately satisfied

13. In your own assessment, how widespread is corruption in KRA?

1. Almost all KRA officials are involved in it
2. Most KRA officials are involved in it
3. Only a few KRA officials are involved in it
4. Hardly any KRA officials are involved in it
5. Don't know/Noat Applicable

Section D: Tax enforcement efforts.

16. Please rate the extent to which you agree with the following statement with regards to enforcement efforts of the tax system. Where 1= Strongly Agree, 2= Agree, 3= Do not know, 4= Disagre, 5= Strongly Disagree.

Tick Appropriately.	1	2	3	4	5
If detected not reporting my exact income, I believe that the tax authority is tolerant towards my offence and most probably it will not be penalized					
Serious enforcement which are fair will be undertaken by the KRA if I do not comply					
Dstraint actions undertaken by KRA are fairly targeted					
If corruption cases are detected, serious enforcement including court suits will be undertaken					

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APPENDIX III: LIST OF MANUFACTURERS

	Name	Category
1	64Door Factory Ltd	Timber, Wood & Furniture Sector
2	A Plus PVC Technology Company Limited	Plastics & Rubber Sector
3	AAM Resources	Service And Consultancy Sector
4	Adarsh Polymer Limited	Plastics & Rubber Sector
5	Adpak International Limited	Paper & Board Sector
6	Afri Piping Systems Kenya Ltd	Plastics & Rubber Sector
7	Africa Apparels EPZ LTD	Textile & Apparels Sector
8	Afriken International Limited	Metal And Allied Sector
9	Al-Mahra Industries Ltd	Food & Beverages Sector
10	Alpha Fine Food Ltd	Food & Beverages Sector
11	Alpha Medical Manufacturers Ltd	Pharmaceutical & Medical Equipment
12	Alpine Coolers Ltd	Food & Beverages Sector
13	Arax Mills Limited	Food & Beverages Sector
14	Ashut Engineers	Metal And Allied Sector
15	Associated Battery Manufacturers (E.A.) Ltd	Motor Vehicle Assemblers & Accessories Sector
16	Bakemark Ltd	Food & Beverages Sector
17	Bakers Corner	Food & Beverages Sector
18	Beiersdorf East Africa Ltd	Chemical & Allied Sector
19	Belfast Miller Ltd	Food & Beverages Sector
20	Beta Helthcare International Ltd	Pharmaceutical & Medical Equipment
21	Blue Ring Products Ltd	Chemical & Allied Sector
22	BMG Holdings Ltd	Motor Vehicle Assemblers & Accessories Sector
23	BOC Kenya Ltd	Chemical & Allied Sector
24	British American Tobacco Kenya Plc	Food & Beverages Sector
25	Brush Manufacturers Ltd	Plastics & Rubber Sector
26	Canton Alloys Ltd	Metal And Allied Sector
27	Chrome Partners Ltd	Paper & Board Sector
28	Chui Auto Springs Industries Ltd	Motor Vehicle Assemblers & Accessories Sector
29	Cica Mtors Ltd	Motor Vehicle Assemblers & Accessories Sector
30	City Engineering Works Ltd	Metal And Allied Sector
31	Conicx Industries Ltd	Plastics & Rubber Sector
32	Cosmos Ltd	Pharmaceutical & Medical Equipment
33	Crown Paints Kenya PLC	Chemical & Allied Sector
34	Deluxe Inks Ltd	Chemical & Allied Sector
35	Desbro Kenya Ltd	Chemical & Allied Sector

36	Dodhia Packaging Kenya Ltd	Paper & Board Sector
37	DPL Festive Ltd	Food & Beverages Sector
38	East African Cables Limited	Energy, Electrical And Electronics Sector
39	East African Sea Food Ltd	Food & Beverages Sector
40	East Africancans & Closures Ltd	Metal And Allied Sector
41	Edible Oil Products Ltd	Food & Beverages Sector
42	Elite Tools Ltd	Metal And Allied Sector
43	Ellams Products	Paper & Board Sector
44	Elys Chemicals Industries Ltd	Pharmaceutical & Medical Equipment
45	English Press	Paper & Board Sector
46	Eslon Plastics Of Kenya Ltd	Plastics & Rubber Sector
47	Fine Wood Works Ltd	Timber, Wood & Furniture Sector
48	Fortuna Industries Ltd	Paper & Board Sector
49	Furniture International Ltd	Timber, Wood & Furniture Sector
50	Galaxy Paints & Coating Co Ltd	Chemical & Allied Sector
51	General Printers Ltd	Paper & Board Sector
52	Giloil Company Ltd	Food & Beverages Sector
53	Gjenge Makers Ltd	Building, Mining & Construction Sector
54	Glacier Products Ltd	Food & Beverages Sector
55	Glaxosmithkline Keny LTD	Pharmaceutical & Medical Equipment
56	Gonas Best Ltd	Food & Beverages Sector
57	Hans Kenya Ltd	Motor Vehicle Assemblers & Accessories Sector
58	Highchem East Africa Ltd	Chemical & Allied Sector
59	Hobra Manufacturing Ltd	Metal And Allied Sector
60	Holman Brothers (E.A) Ltd	Energy, Electrical And Electronics Sector
61	Honda Motorcycle Kenya Ltd	Motor Vehicle Assemblers & Accessories Sector
62	Hytech Hydraulics Kenya Ltd	Service And Consultancy Sector
63	Insteel Ltd	Metal And Allied Sector
64	Kamili Packers Ltd	Food & Beverages Sector
65	Kamongo Waste Paper Kenya Ltd	Service And Consultancy Sector
66	Kansai Plascon Kenya Ltd	Chemical & Allied Sector
67	Kartasi Industries Ltd	Paper & Board Sector
68	Kemia International Ltd	Chemical & Allied Sector
69	Kenblest Ltd	Food & Beverages Sector
70	Kenchic Ltd	Food & Beverages Sector
71	Kenpolcy Manufacturing Ltd	Plastics & Rubber Sector
72	Kens Metal Industres Ltd	Metal And Allied Sector
73	Kenwest Cables Ltd	Energy, Electrical And Electronics Sector
74	Kenya Wine Agencies Ltd	Food & Beverages Sector
75	Khetshi Dharamshi & Co. Ltd	Metal And Allied Sector

76	Krystalline Salt Ltd	Building, Mining & Construction Sector
77	Lacheke Lubricant Ltd	Energy, Electrical And Electronics Sector
78	Magnate Venture Ltd	Service And Consultancy Sector
79	Manchester Outfitters Ltd	Textile & Apparels Sector
80	Manji Food Industries Tld	Food & Beverages Sector
81	Mantoz Enterprises K. Ltd	Service And Consultancy Sector
82	Maroo Polymer Ltd	Chemical & Allied Sector
83	Melvin Marsh International Ltd	Food & Beverages Sector
84	Metal Crowns Ltd	Metal And Allied Sector
85	Midco Textiles EA Ltd	Textile & Apparels Sector
86	Modern Lithographic Ltd	Paper & Board Sector
87	Nails & Steel Products Ltd	Metal And Allied Sector
88	Nairobi Flour Millers Ltd	Food & Beverages Sector
89	Nairobi Plastics Ltd	Plastics & Rubber Sector
90	Napro Industries Limited	Metal And Allied Sector
91	Naushad Trading Company Ltd	Service And Consultancy Sector
92	Nestle Kenya Ltd	Food & Beverages Sector
93	Osho Chemical Industries Ltd	Chemical & Allied Sector
94	Packaging Industries Limited	Plastics & Rubber Sector
95	Paperbags Ltd	Paper & Board Sector
96	Paperplast Ltd	Paper & Board Sector
97	Patco Industries Ltd	Food & Beverages Sector
98	Patronicsservices Ltd	Energy, Electrical And Electronics Sector
99	Pembe Flour Millers Ltd	Food & Beverages Sector
100	PG Bison Ltd	Timber, Wood & Furniture Sector
101	Pinnacle Systems Limited	Motor Vehicle Assemblers & Accessories Sector
102	Plasctic Electricons	Plastics & Rubber Sector
103	Plastico Industries Ltd	Plastics & Rubber Sector
104	Polychem East Africa Ltd	Chemical & Allied Sector
105	Powerex Lubricant Ltd	Energy, Electrical And Electronics Sector
106	Pradip Enterprises (E.A) Ltd	Food & Beverages Sector
107	Prinpak Multipackaging Ltd	Paper & Board Sector
108	Printing Services Ltd	Paper & Board Sector
109	Printwell Industries Ltd	Paper & Board Sector
110	Questa Care Ltd	Pharmaceutical & Medical Equipment
111	Ramco Printing Works Ltd	Paper & Board Sector
112	Re- Suns Spices Ltd	Food & Beverages Sector
113	Rok Industries Ltd	Chemical & Allied Sector
114	Romageco Kenya Ltd	Motor Vehicle Assemblers & Accessories Sector
115	Royal Swiss Bakery Ltd	Food & Beverages Sector

116	Rubber Products Ltd	Plastics & Rubber Sector
117	Scania East Africa Limited	Motor Vehicle Assemblers & Accessories Sector
118	Shamcoindustries	Timber, Wood & Furniture Sector
119	Shar Timber Mart Ltd	Timber, Wood & Furniture Sector
120	Silafrika Kenya Ltd	Plastics & Rubber Sector
121	Silpack Industries Ltd	Plastics & Rubber Sector
122	Sitima Stationers & Printers Ltd	Paper & Board Sector
123	Spice WorldLtd	Food & Beverages Sector
124	Straighline Enterprises Ltd	Textile & Apparels Sector
125	Style Industries Ltd	Plastics & Rubber Sector
126	Supa Snack Ltd	Food & Beverages Sector
127	Supersleek Ltd	Chemical & Allied Sector
128	Syngenta East Africa Ltd	Chemical & Allied Sector
129	Synresins Ltd	Chemical & Allied Sector
130	Tarpo Industries Td	Textile & Apparels Sector
131	Teita Estate Ltd	Textile & Apparels Sector
132	The Paper House Of Kenya Ltd	Paper & Board Sector
133	Tin Cam Manufacturers Ltd	Metal And Allied Sector
134	Twiga Chemical Industries Limited	Chemical & Allied Sector
135	Twiga Stationer & Printer Ltd	Paper & Board Sector
136	Ultrvetis East Africa Ltd	Pharmaceutical & Medical Equipment
137	Upfield Kenya Limited	Food & Beverages Sector
138	Usafi Comfort	Service And Consultancy Sector
139	Uzuri Industries Ltd	Chemical & Allied Sector
140	Vaja's Manufacturers Limited	Timber, Wood & Furniture Sector
141	Varsani Brakelinings Lts	Motor Vehicle Assemblers & Accessories Sector
142	Velka Engineering Ltd	Metal And Allied Sector
143	Wandi Packaging Ltd	Paper & Board Sector
144	Welding Alloys Ltd	Metal And Allied Sector
145	Welrods Ltd	Energy, Electrical And Electronics Sector
146	Woodmakers (K) Ltd	Timber, Wood & Furniture Sector
147	Zaam Industries Ltd	Paper & Board Sector
148	Zenith Steel Fabricators Ltd	Metal And Allied Sector
149	Polyflex Industries Ltd	Chemical & Allied Sector
150	Re Suns Spices Ltd	Food & Beverages Sector
151	Polyblend Ltd	Chemical & Allied Sector
152	Prosel Ltd	Service And Consultancy Sector
153	Salim Wazarani Kenya Company	Metal And Allied Sector
154	Carbacid Ltd	Chemical & Allied Sector
155	Elex Product Ltd	Chemical & Allied Sector

156	Ustawi Grain Millers Ltd	Food & Beverages Sector
157	C Dormans Ltd	Food & Beverages Sector
158	Kenya Highlands Seed Co Ltd	Food & Beverages Sector
159	Unga Group Ltd	Food & Beverages Sector
160	Tropical Heat Ltd	Food & Beverages Sector
161	Weetabix East Africa	Food & Beverages Sector
162	Addison Industries Ltd	Textile & Apparels Sector
163	Budget Shoes Ltd	Textile & Apparels Sector
164	Zingo Investments Ltd	Textile & Apparels Sector
165	Easy Clean Africa Ltd	Metal And Allied Sector
166	Eco-Steel Africa	Metal And Allied Sector